Chairman's Statement

"SKY CONTINUES TO DELIVER EXCELLENT OPERATIONAL AND FINANCIAL PERFORMANCE. THE RESULTS FOR 2004 SHOWED STRONG GROWTH IN PROFITABILITY AS A RESULT OF THE GROUP'S HIGHLY SUCCESSFUL BUSINESS MODEL. WE CONTINUE TO FOCUS ON BUILDING ON OUR MARKET LEADERSHIP, WHILST ENSURING THAT WE ACHIEVE ATTRACTIVE RETURNS FOR OUR SHAREHOLDERS."

Rupert Murdoch, Chairman

Sky had 7.4 million direct-to-home ("DTH") subscribers at the end of June 2004, and continues to attract new customers to its wide range of subscription packages. Sky's DTH subscribers are highly satisfied with the breadth and depth of programming and interactive services on our platform. The relaunch of the Group's brand and a series of new advertising campaigns are raising awareness of our products and introducing Sky to a wider audience. With its high quality product range, Sky is well positioned to benefit from the future growth of multichannel television in the UK and Ireland.

Sky+ is our most significant new product since the launch of digital and its adoption continues to grow. At the end of June 2004, 397,000 DTH subscribers had access to the enhanced control that Sky+ provides over the television viewing experience. By increasing customer satisfaction and providing new revenue streams, our new products' strategy is delivering incremental profitability and new opportunities for growth. We will continue to lead the market to provide the best for our customers.

Offering the best programming is fundamental to attracting and retaining subscribers. Through Sky's own channels, we are able to invest in the best sport, movies and entertainment, reinforcing the message that pay television offers the best selection and widest choice of programming available.

During the year, there were a number of changes to the Company's Board of Directors. Tony Ball left his post as Chief Executive in November 2003. I would like to thank Tony for the outstanding performance Sky achieved under his leadership. James Murdoch was appointed Chief Executive on 4 November 2003. James was previously Chairman and Chief Executive Officer of Star, News Corporation's Asian satellite television and multi-media service.

In February 2004, Martin Stewart announced that he would step down as Chief Financial Officer by 4 August 2004. Martin joined the Board in 1998 and was closely involved in the key strategic decisions taken during Sky's transition to digital. On behalf of the Board, I would like to thank him for his contribution to Sky and wish him well for the future. On 16 August 2004, Jeremy Darroch will join the Group as Chief Financial Officer from Dixons Group plc, where he was Group Finance Director.

On 14 November 2003, the Company announced that it had established an ad hoc committee of the Board chaired by Lord Wilson of Dinton to examine all relevant corporate governance codes and statutory obligations, and their impact on the processes of the Board and composition of its Committees. Following the conclusion of the Committee's review, all of its recommendations were approved by the Board unanimously on 15 June 2004. The recommendations approved by the Board included an increase in the number of independent Non-Executive Directors, who will form a majority of the Board, and changes to the composition of Board committees, including the Audit and Remuneration Committees, which are now composed entirely of independent Non-Executive Directors.

Lord Jacob Rothschild was appointed to the new position of Non-Executive Deputy Chairman and Senior Independent Director on 17 November 2003. Following Philip Bowman's retirement from the Board, Allan Leighton replaced him as Chairman of the Audit Committee. John Thornton resigned as a Non-Executive Director of the Company on 11 May 2004. Nicholas Ferguson was appointed as an independent Non-Executive Director of the Company with effect from 15 June 2004. Andy Higginson will also join the Board as an independent Non-Executive Director with effect from 1 September 2004.

These appointments and the implementation of the Committee's recommendations represent a clear strengthening of the Board and its committees, demonstrating Sky's commitment to embrace best practice in corporate governance.

In a year of change, it is testament to the strength and depth of Sky's management that the progress towards achieving the Group's targets has continued unabated. I would like to thank all of our staff for their continued support in building long-term value for shareholders.

3 August 2004

BECOMING A LEADING PLAYER IN DIGITAL TELEVISION IN THE UK HAS REQUIRED SUBSTANTIAL INVESTMENT FROM OUR SHAREHOLDERS. IT'S NOW TIME TO BUILD ON OUR CURRENT POSITION AND PROVE THE SAYING THAT "THE MORE YOU PUT IN, THE MORE YOU GET OUT."

200%+

INCREASE IN SKY+ SUBSCRIBERS SINCE RELAUNCH

16.4%

OPERATING MARGIN BEFORE GOODWILL AND EXCEPTIONAL ITEMS

INNOVATE/OUTCLASS

Innovation in our products and services is the driving force behind Sky's growth. New technology is helping our subscribers to get the best value from our programming, new customer service facilities are ensuring that we can continue to outclass our competitors and innovative programming continues to set Sky's channels apart. We set ourselves tough targets, but, as a result of our innovation and drive, we continue to meet them. In March 2004, we reached the Sky+ target we had set for the end of the financial year and, at the end of June 2004, we had reached 397,000 Sky+ subscribers.

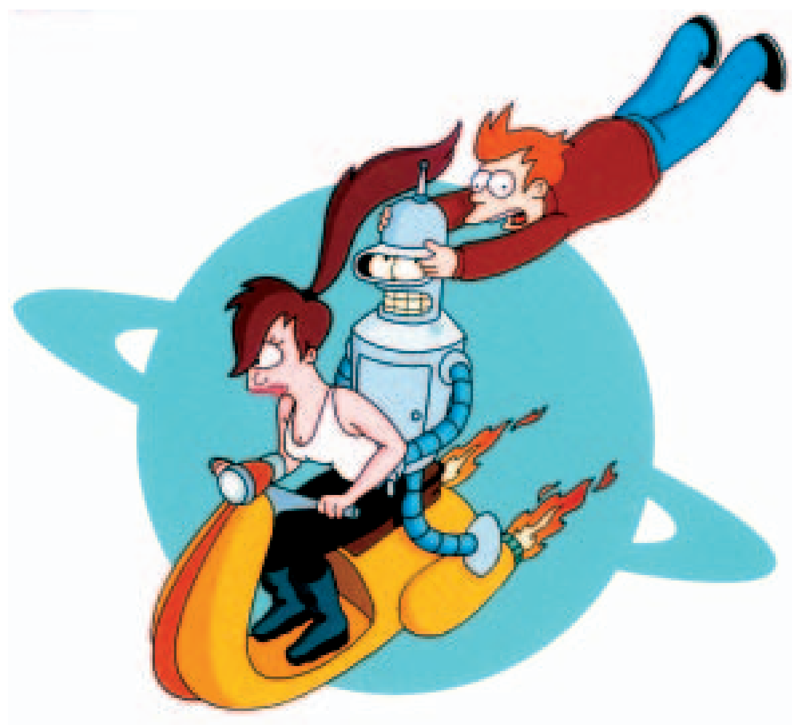
450+

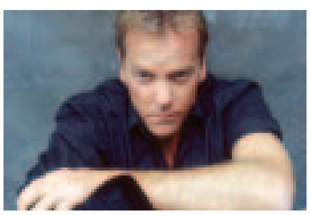
CHANNELS

No. 1

INSPIRE/OUTSHINE

Sky's programming is fast-paced, topical and popular. We are always looking to acquire the best for our subscribers to reward their loyalty. Sky delivers the best in sport; the widest choice of movies; entertainment shows that break new ground; and it puts viewers on the front line for breaking news. As a result of this we are now outshining the competition on all fronts. Sky News is acknowledged as the leader in 24-hour news coverage. The Sky Sports channels have seen a significant increase in their viewing share, and Sky One is consistently the most popular non-terrestrial channel in the UK.





10,000,000

SUBSCRIBER TARGET IN 2010

INVEST/OUTPERFORM

We continue to invest across our business to reach our full potential. We are the leading digital television service in the UK and Ireland and we continue to outperform against expectations. We have laid the foundations to grow an even bigger, even better Sky. We still have a long way to go and we're looking forward to the journey.

"SKY IS BRITAIN'S LEADING ENTERTAINMENT COMPANY. ALTHOUGH STILL YOUNG, REACHING ONLY ITS FIFTEENTH BIRTHDAY IN FEBRUARY THIS YEAR, IT HAS GROWN FROM SMALL BEGINNINGS TO BECOME THE MOST POPULAR PROVIDER OF PAY TELEVISION SERVICES IN BRITAIN AND IRELAND."

James Murdoch, Chief Executive Officer

The 2004 financial year has been another busy period at Sky. The Company has reached a number of significant operational and financial milestones, including the achievement in September 2003 of our previous subscriber target of seven million DTH customers, some three months early.

The Company has also now completed its transition from the investment phase that started when we launched the digital service, to a new phase of superior financial health, as demonstrated by a second straight year of profit on ordinary activities after taxation, up 75% year-on-year.

Thanks to the hard work and dedication of the executive management team and all of Sky's employees, the financial and operational position of the business today is extremely robust. Total revenues for the twelve months ending 30 June 2004 increased by 15% year-on-year, to £3,656 million. Meanwhile, total operating costs before goodwill and exceptional items increased by only 8% to £3,056 million, generating an operating profit before goodwill and exceptional items of £600 million. The operating profit margin before goodwill and exceptional items was 16.4%, up from 11.4% in the comparable period, and the Company generated free cashflow of £676 million, reducing net debt to £429 million.

The next phase of our growth will capitalise on this extraordinary position. We have now laid out a new strategy to build on this robust foundation, which will ensure the long-term durability of the business, together with strong growth and sustained cashflow generation going forward.

In 2004 my colleagues and I have focused our attention on the means by which Sky can achieve its full potential, and on the nature of that potential in a changing and dynamic marketplace.

We believe that, in the long-term, pay television penetration will reach around 80% of UK television households. With pay television penetration of households in the UK and Ireland at 43% at 30 June 2004, we believe that a further 10 million homes will take pay television services over time. This view of the market potential is supported by evidence from other television markets, particularly the US; by the Government's stated intention to "switch off" analogue terrestrial television in the next six to eight years; by other technological advances and enhancements, such as the development of the Personal Video Recorder ("PVR") and high definition television; and, importantly, by the attractive profile of consumers who have yet to switch to pay television in the UK. We are very well placed to benefit from this potential growth.

Given the size of the potential opportunity, our focus will be on raising the rate of subscriber growth by addressing the key barriers to consumer take-up. We have several initiatives in place to address these barriers, including the reintroduction of the Sky brand; emphasising the broad range of entry points to pay television; and continued disciplined investment in "must-see" programming. We are focused on both new things to do, and on doing better what we already do well.

We are confident that these initiatives will deliver improved subscriber and turnover growth, and will drive shareholder value by creating a highly profitable business with greater scale in the longer term.

In addition, our financial strategy will be consistent with our desire to maintain an investment grade credit rating and retain financial flexibility going forward. We also expect the financial strategy to include returns to shareholders in addition to the ordinary dividend that was resumed earlier this year.

Following the development of our strategy, we have set out our new targets for the business, and the vision for the business that those targets will help us achieve. We believe we can have over 10 million DTH subscribers in 2010, six years out, and furthermore, that the mix of our customers, in terms of what they buy from us, will be exceedingly attractive.

Driven by innovation
Our Sky+ subscriber target was reached three months early and there are now 397,000 Sky+ subscribers.

One of the lowest rates of pay television churn in the world demonstrates the customer loyalty generated by Sky's high quality products.

9.7%

Our rate of churn

The business, its objectives and its strategy

British Sky Broadcasting Group plc (the "Company", "BSkyB") and its subsidiaries ("Sky", the "Group") operate the leading pay television broadcasting service in the United Kingdom ("UK") and Ireland, deriving revenues from television broadcasting services and certain ancillary functions, which are provided to both retail and wholesale customers.

Sky is an established and widely-recognised brand, with a reputation for offering choice, quality and innovation. Sky operates and distributes 26 wholly-owned channels via its digital service and retails a further 104 third party channels to DTH viewers. In addition to this, Sky operates the Sky Box Office service ("SBO"), which provides pay-per-view services covering films, sporting events and concerts.

Sky's main objective is to maximise value for shareholders by focusing on profitable growth in subscribers to its digital pay television services in the UK and Ireland.

Sky has established a series of key operational and financial targets, which ensure focus on certain priorities that will drive the business to achieve its main objective. These are as follows:

+ *Continued expansion of the DTH subscriber base*
  Sky looks to achieve this expansion in two main ways: through the acquisition of new DTH subscribers, and through the maintenance of a low churn rate. Sky is on track to reach its target of 8 million DTH subscribers by December 2005 and has announced a new target of 10 million DTH subscribers in 2010.

  Maintaining churn at a low rate is a key component of maximising the return Sky makes on its investment in customer acquisition. Sky's customer relationship management ("CRM") centres, principally based in Scotland, play a key role in achieving this priority. The CRM centres deal with the handling of orders from subscribers, the establishment and maintenance of subscriber accounts, the invoicing and collection of revenue, and telemarketing and customer services. These activities, together with a high level of customer service, allow the centres to play a key role, both in customer acquisition and customer retention.

+ *Maintenance of subscriber quality*
  Sky continues to develop the programming and other services it offers on the Sky digital platform, resulting in high satisfaction and perception of "value for money". The financial return on an incremental subscriber is a function of the revenue, direct costs and expected duration of the subscription. Sky manages its product portfolio and supplier relationships to ensure that it can achieve an attractive return, regardless of the tier of programming chosen. Sky expects to continue to invest in subscriber acquisition, including the cost of subsidising set-top boxes, adjusting the value of such subsidies according to the profile of new groups of subscribers.

+ *Investment in programming*
  Investment in attractive programming is a key factor in generating the subscription revenues that make up 79% (2003: 80%) of Sky's total revenue and, here, Sky's strategy is to acquire exclusive and premium pay television rights for films, live sporting events and for other general entertainment programming.

+ *Growing the popularity of Sky's channels*
  Sky's channels generate significant advertising revenues for the Group and contribute to the appeal of the Sky digital platform. Sky One remains the UK's most watched non-terrestrial channel; together with Sky One Mix, which was launched in December 2002, it has a viewing share of 1.7%. Sky News has a reputation for impartial, authoritative and up-to-the minute coverage of breaking news. As the universe of multichannel homes has grown, Sky's channels have been able to grow their share of the UK television advertising market, and Sky expects this trend to continue.

+ *Innovation in products and services*
  Sky has a strong track record of innovation and operates in a highly competitive environment, which is reliant on technology that is subject to rapid change and development. Sky therefore looks to invest and adapt in order to remain competitive, and keeps under review emerging technologies for the distribution of entertainment content and for the provision of new services to Sky's subscriber base.

  Sky has successfully introduced new products and services such as Sky+ and Multiroom subscriptions, which continue to increase in popularity. Sky will launch an enhanced version of Sky+ in October 2004, offering around 160GB of storage capacity and extra connectivity through two USB ports. This will further Sky's goal of introducing a wider range of hardware and service options for subscribers, tailored to different needs. Sky has set targets for Multiroom penetration of 30% of DTH subscribers in 2010 and Sky+ penetration of 25% of DTH subscribers in 2010.

  Sky's DTH customers also have access to Sky Active and a range of other digital interactive services. These services include betting, games-playing, shopping, interactive programming, interactive advertising and telephony-based services, such as voting.

+ *Investment in infrastructure to support subscriber growth*
  In order to support its growth strategy, the Group intends to invest in the following programmes:

  CRM – The Group intends to continue the programme of work started in 2002, to maintain its first-class customer service which is fundamental to the future of the business.

  Property – The Group intends to invest in a property programme to ensure that its Osterley campus is a flexible, efficient and environmentally-friendly place to work, and fully scalable with the long-term growth and expansion of the business.

  Advanced Technology Centre – The Group is currently building this facility as the final part of its business continuity programme to mitigate further any single points of failure in its Broadcast Network.

  Increased contact and training facilities - The Group has identified the need to increase capacity at its call centres to service future subscriber growth. The Group is also planning to build a new training centre for its customer-facing staff, that will help keep customer service standards at the forefront of the industry.

  The capital expenditure on these projects is expected to total £450 million, which will be incurred over the next four years, in addition to core capital expenditure which is expected to remain at around £100 million annually.

OVERVIEW Sky has delivered another year of strong financial results, producing its second full year of positive earnings since the launch of Sky digital. This has been driven by double-digit revenue growth and strong operational gearing. Total revenues for the twelve months ending 30 June 2004 (“the year”) increased by 15% over the twelve months to 30 June 2003 (“the comparable period”) to £3,656 million. Total operating costs before goodwill and exceptional items increased by 8% to £3,056 million, generating an operating profit before goodwill and exceptional items of £600 million. The operating profit margin before goodwill and exceptional items was 16.4%, up from 11.4% in the comparable period.

Profit after tax increased by £138 million to £322 million. Earnings per share before goodwill and exceptional items was 18.3 pence, representing an increase of 79% on the comparable period.

Operating review

At 30 June 2004, the total number of DTH digital satellite subscribers in the UK and Ireland was 7,355,000, representing a net increase of 510,000 subscribers on the comparable period. The mix of packages taken by subscribers continues to be weighted towards premium packages, with 52.4% of all DTH subscribers taking the top tier Sky World package at the end of the year, a decline of just one percentage point from the level of 53.4% at 30 June 2003.

The total number of households in the UK and Ireland receiving one or more Sky channels increased to over 14 million in the year. This was driven by DTH growth, a small increase in the number of households subscribing to a television service via cable, and an increase in the number of households receiving the Freeview, free-to-air (“FTA”) digital terrestrial channels, as FTA-only homes continued to replace analogue with digital reception equipment.

Sky announced on 9 June 2004 that it will be introducing a free satellite service offering access to almost 200 television and radio channels, and interactive services, to be available later this year, without a monthly subscription fee. Consumers will be able to purchase a package of reception equipment, including viewing card and professional installation, directly from Sky for a cost of approximately £150. This offers an easy upgrade path to a Sky subscription for viewers who choose subsequently to add a pay television service to their viewing options.

DTH churn for the year stands at 9.7%. Annualised average revenue per DTH subscriber (“ARPU”) was £380 in the last quarter, an increase of £14 on the same quarter last year. The Group expects the next increase in ARPU to take place during the second quarter of the 2005 financial year as a result of the recently announced changes in UK and Ireland retail pricing, which start to become effective from September 2004.

The number of Sky+ households continued to grow strongly, increasing by 292,000 to reach 397,000. Sky+ continues to drive new subscribers to Sky, with 22% of new Sky+ customers in the last quarter being new to Sky digital. The growth in Sky+ penetration continues to drive the uptake of the Multiroom product, with the number of households taking two or more digiboxes increasing from 165,000 to 293,000 in the year.

DTH SUBSCRIBERS
Million

TOTAL REVENUE
£ million

OPERATING MARGIN
Before goodwill and exceptional items

Top: Interior of Sky+ mobile service unit with people using Sky+ terminals
Sky is promoting awareness of Sky+ through innovative mobile showrooms featuring a rear walk-in section with live Sky+ terminals. These tour the country at major events and exhibitions, allowing consumers to experience the benefits of Sky+ by sampling its features hands on.

Bottom: Sky News
Sky News was awarded the contract to produce five News output from 2005. It was, for the third year running, the RTS News Channel of the year, with a unanimous verdict from RTS judges: "None of Britain's other 24 hour news channels yet matched the winner, who had continued to innovate in their coverage of the war and elsewhere and, as a news channel, remains – simply the best".

"Sky digital continues to offer the widest choice in multichannel television in the UK and Ireland."

Programming

Multichannel television's combined share of total television audience continues to grow, increasing by 9% over the previous year to 26% in the last quarter and overtaking BBC1's share (25%) for the first time ever, according to viewing figures from the Broadcasters' Audience Research Board ("BARB") at 30 June 2004. Despite the intense competition in the last quarter from one-off events on terrestrial channels, the viewing share of Sky channels across all UK television homes has been maintained comfortably above 6%.

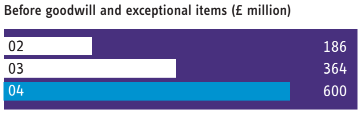
Sky Sports enjoyed another strong year, with an 11% increase in viewing share across UK television homes over the comparable period.

The 2004/05 football season, which starts in August 2004, will be the most televised on Sky Sports, with viewers offered over 450 live matches. With the commencement of new Football Association Premier League broadcast contracts, Sky Sports will now show 88 live games from the Barclays Premiership, up from 66, and an additional 50 live Premiership games, up from 40, will be offered on the pay-per-view service, PremPlus. A new interactive service, Football First, will offer one match per week in full on a delayed basis plus extended highlights of every match played that day. Sky digital viewers can choose which game they watch through the interactive service, Sky Sports Active.

Sky Movies' viewing share for the year was 3.4% in multichannel homes. Over the Easter weekend the multi-start premiere of 'Harry Potter and the Chamber of Secrets' achieved a total audience of over 900,000 viewers. Following the success of shows from the US such as 'Nip/Tuck' and '24', Sky One continues to add unique programming with the HBO production, 'Deadwood', to be launched exclusively on Sky One in September 2004, and 'Battlestar Galactica'. Significant one-off events continue to differentiate Sky One, with 'Rebecca Loos – My Story' attracting 1.7 million viewers in April; the climax of David Blaine's 'Above the Below', where he was suspended over the River Thames in a perspex box, attracting over 2 million viewers in August; and an episode of 'The Simpsons' featuring Tony Blair also attracting over 1 million viewers.

Sky was awarded the contract to supply five with its news service in March 2004, and Sky News launched a dedicated news service for Ireland on 10 May 2004. At the Royal Television Society Journalism Awards in February 2004, Sky News was named News Channel of the Year for the third successive year and won an innovation award for its coverage of the Hutton Inquiry and the Soham trial.

OPERATING PROFIT
Before goodwill and exceptional items (£ million)



CHURN RATE
Year to date

99%

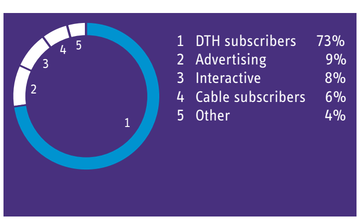
COVERAGE

SKY HAS COMPREHENSIVE REACH ACROSS THE UK AND IRELAND. 99% OF HOUSEHOLDS FALL WITHIN THE FOOTPRINT OF SKY'S DIGITAL SATELLITE SERVICES, MORE THAN ANY OTHER DIGITAL TELEVISION SERVICE.

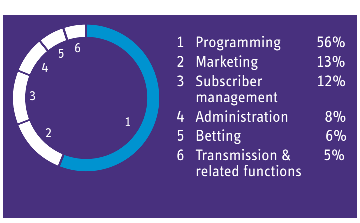
Martin Stewart, Chief Financial Officer

"Total revenues grew by 15% on the comparable period to £3,656 million."

ANALYSIS OF TURNOVER
2004



ANALYSIS OF OPERATING EXPENSES, NET
2004



Financial Review

Turnover Total revenues grew by 15% on the comparable period to £3,656 million, reflecting continued growth in the average number of DTH subscribers, the second successive year of double-digit advertising revenue growth, and higher interactive revenues.

DTH revenues for the year increased by 14% from £2,341 million for the comparable period to £2,660 million. This was principally due to the 10% growth in the average number of DTH subscribers and the 4% increase in average DTH revenue per subscriber.

Advertising revenue continued to outperform the advertising market, increasing by 10% on the comparable period to £312 million, principally due to growth of 6% in the Group's share of total UK advertising revenue. The Group remains confident of outperforming UK advertising market growth for the remainder of this calendar year.

Cable wholesale revenues increased to £215 million for the year, an increase of 6% on the comparable period. This was mainly attributable to the one-off receipt of audit monies from ntl and increases to the average revenue per subscriber resulting from changes to wholesale pricing from January 2004.

Total interactive revenues, which includes both Sky Active revenues and betting revenues, increased by 41% to £307 million.

Sky Active revenues increased by 15% on the comparable period to £116 million. This was due to a combination of increases in retail revenues through SkyBuy, third party betting, revenues from interactive advertising, premium rate telephony revenues and platform access fees paid by third party broadcasters and interactive service providers.

SkyBet revenues increased by 63% on the comparable period to £191 million, driven mainly by the 85% increase in the total number of bets placed across all platforms. Consequently, betting costs, which include payouts, duty, levies and taxes, increased by £67 million to £175 million.

Programming costs Programming costs for the year increased by £107 million on the comparable period to £1,711 million. Gross margin (total revenues less total programming costs) for the year increased to 53.2% from 49.7% in the comparable period.

Sports costs, which accounted for 75% of the total increase in programming costs, grew by £80 million to £803 million, driven by contractual increases in rights costs and the addition of UEFA Champions League football this year.

A decrease in movie costs of £4 million on the comparable period to £393 million reflected continued weakness of the US dollar and therefore a favourable movement in the average rate at which the Group was able to purchase dollars versus the comparable period. These savings were partially offset by increased subscriber volumes and pricing increases in certain studio contracts.

Third party channel costs increased by £9 million on the comparable period to £360 million. Increases due to the 10% increase in the volume of DTH subscribers and new channels added to the platform were partially offset by savings resulting from contractual renegotiations as the Group renewed carriage deals with MTV, Nickelodeon, Paramount, Music Choice, E4, Film Four and Eurosport.

Entertainment and News costs increased by £22 million on the comparable period to £155 million. This was mainly due to re-evaluation of entertainment programme stock balances during the year, which resulted in the acceleration of certain amortisation charges totalling £17 million, in accordance with the Group's policy in respect of programme stock accounting.

Professional Installation
Sky's professional installers carried out over 800,000 installations this financial year, with each installation taking about two hours on average. The average lead time between booking and installation is nine days.

7.4 million

SKY'S DTH SUBSCRIBER BASE HAS GROWN FROM 6.8 MILLION TO 7.4 MILLION IN THE COURSE OF THE YEAR.

"Gross margin for the year has increased to 53.2%."

Other operating costs Marketing costs for the year were £396 million, a decrease of £4 million on the comparable period. This decrease was predominantly driven by a £22 million reduction in acquisition marketing costs to £256 million, due to lower set-top box unit prices and fewer installations. Retention marketing also decreased by £2 million on the comparable period to £32 million. These decreases were partly offset by increased above-the-line expenditure, up £10 million on the comparable period to £49 million, and other marketing costs up £10 million to £59 million, as a result of the Sky+ and programming campaigns which have been run this year. Average subscriber acquisition costs ("SAC") remained around £200 for the year.

Subscriber management costs, which include CRM costs, supply chain costs, and associated depreciation, increased by £47 million on the comparable period to £371 million. Supply chain costs, including the cost of goods sold in respect of Sky+ and Multiroom set-top boxes, represent 70% of the increase, reflecting the strong growth in Sky+ customers during the year. Also included within supply chain costs is the cost of stock for SkyBuy, the Group's retail operation, which increased by £12 million in the year. CRM costs represent 19% of the increase in subscriber management costs, but the CRM cost per subscriber has declined by 3%. Depreciation costs increased by £5 million on the comparable period, mainly due to increased depreciation in respect of CRM assets.

Transmission and related costs increased by £3 million on the comparable period to £146 million. Administration costs before goodwill and exceptional items increased by £14 million on the comparable period to £257 million, due mainly to increased technology and facilities costs and costs resulting from increased compliance obligations.

Goodwill Goodwill amortisation decreased by £2 million on the comparable period to £119 million. This was primarily due to the £5 million provision made in the comparable period against goodwill which originally arose on the acquisition of OPTA Index Limited.

Exceptional items Total exceptional items for the year amounted to a net credit of £75 million. This consists of a £49 million profit on disposal of the Group's 20% shareholding in QVC (UK); a profit on disposal of £2 million and a provision release of £33 million relating to the Group's sale of its 9.9% shareholding in Manchester United plc; partly offset by a £9 million provision against the Group's remaining football club investments.

Joint ventures and associates The Group's share of the net operating losses of joint ventures and associates before goodwill increased to £5 million in the year. This mainly reflects a one-off write down of £11 million by attheraces ("ATR") in respect of capitalised infrastructure costs and media rights prepayments.

On 30 April 2004, Sky and Arena Leisure plc acquired Channel 4's shares and loan notes in ATR, increasing the Group's shareholding to 50%. At the same time, the shareholder loans were capitalised, giving rise to negative goodwill of £11 million which was immediately released to the profit and loss account. The remaining joint ventures' goodwill amortised during the year principally relates to goodwill that arose from the purchase of a 50% stake in Artsworld in December 2003.

Interest Total net interest payable for the year decreased by £33 million on the comparable period to £81 million as a result of the lower level of indebtedness. On 29 June 2004, a £200 million tranche of the Group's revolving credit facility ("RCF") which was undrawn at this date, matured in accordance with its terms, leaving total available facilities going forward of £600 million. This £600 million facility, which was also undrawn as at 30 June 2004, is due to mature in March 2008.

Taxation The total net tax charge for the period of £158 million includes a current tax charge of £127 million and a deferred tax charge of £34 million, offset by a £3 million net adjustment in respect of prior years. Excluding the effect of goodwill, joint ventures and exceptional items, the Group's underlying effective tax rate on ordinary activities was 30% during the period.

After removing the effect of deferred tax, the Group's share of joint ventures' tax and prior year adjustments, the mainstream corporation tax liability for the period was £124 million. After utilising all the Group's remaining Advanced Corporation Tax, this was reduced to £70 million. At 30 June 2004, £35 million had been paid, with the balance of £35 million due for payment by 31 December 2004.

Left: Sky Talent Search
Sky Talent Search is Sky's original initiative to develop internal talent and discover future television presenters from its own employees. From over 300 applicants, 12 were selected by a panel of presenters and producers to go on a professional four-day presenting course. Three of the Talent Search Stars will win a one-off slot on a Sky programme.

Right: Sky's training schemes
Sky is committed to the continuous development of its employees so that everyone has the skills and knowledge to undertake their current and future roles. This is achieved through the provision of tailored training and personal development opportunities for all employees at all stages of their careers.

Earnings The profit after tax for the year was £322 million. Earnings per share before goodwill and exceptional items was 18.3 pence compared to 10.2 pence (restated for the application of Urgent Issues Task Force abstract 38 "Accounting for ESOP trusts") for the comparable period. At 30 June 2004, the total number of shares outstanding was 1,941,712,786.

Cashflow Earnings before interest, tax, depreciation and amortisation ("EBITDA") before exceptional items increased by 52% on the comparable period to £702 million. With an additional £180 million of cash inflow, principally from a £182 million movement in working capital due to the unwinding of programming prepayments, the timing of DTH revenue collection and the timing of payments to third party channels and movie studios, the Group generated an operating cash inflow of £882 million. This represents the conversion of 147% of operating profit before goodwill and exceptional items to operating cash inflow. After taking into account cash outflows, principally comprising capital expenditure of £132 million; net interest payments of £82 million; tax paid of £58 million (which includes £20 million relating to the 2003 financial year and £3 million consortium relief); dividends paid to shareholders in April 2004 of £53 million; and one-off receipts from the sale of the Group's shareholdings in QVC (UK) (£49 million), Manchester United plc (£62 million) and Chelsea Village plc (£6 million), the Group reduced net debt by £676 million, from £1,105 million at 30 June 2003 to £429 million at 30 June 2004.

Dividend In light of the Group's continued strong cashflow generation, the Board proposes a final dividend of 3.25 pence per share, payable on 19 November 2004 to shareholders on the register on 29 October 2004, subject to approval of shareholders at the Annual General meeting in November 2004.

£600 million

OPERATING PROFIT BEFORE GOODWILL AND EXCEPTIONAL ITEMS INCREASES BY 65% TO £600 MILLION.

6 PENCE PER SHARE
RESUMPTION OF DIVIDEND PAYMENTS

Balance sheet
Financing
The Group's principal source of liquidity is its operating cashflow. Long-term funding comes primarily from its US dollar and sterling-denominated public bond debt, together with its £600 million RCF, each of which is described below.

+ *Guaranteed notes*
  During the current and prior year the Group had in issue the following publicly-traded guaranteed notes:

  US$650 million of 8.200% Guaranteed Notes, repayable in July 2009. At the time of issuing these notes, the US dollar proceeds were swapped into pounds sterling (£413 million) at an average fixed rate of 7.653% payable semi-annually. In December 2002, March 2003 and July 2003, the Group entered into further swap arrangements relating to £64 million of this debt, the effect of which was to fix the interest rate on £64 million at 5.990% until January 2004, after which time it reverted to floating six months LIBOR plus a margin of 2.840%, except that should LIBOR be less than 2.750% for the period January to July 2004, 2.890% for the period July 2004 to January 2005, or 2.990% thereafter, the effective rate shall be deemed to be 7.653%. In order to increase its exposure to floating rates, in August 2003, the Group entered into another interest rate hedging arrangement in respect of a further £64 million of the above-mentioned debt, the effect of which was that, from July 2003 until July 2009, the Group will pay floating six months LIBOR plus a margin of 2.818% on a further £64 million of its swapped debt, except that should LIBOR be less than 2.750% for the period January to July 2004, or less than 2.990% thereafter, the Group shall revert back to 7.653%. At 30 June 2004, none of the floor levels had been breached, therefore the Group continues to pay the relevant floating rates.

  £100 million of 7.750% Guaranteed Notes, repayable in July 2009. The fixed coupon is payable annually. In March 2004, the Group entered into an interest rate swap arrangement in respect of £50 million of this debt, whereby the previously fixed rate of 7.750% was swapped to a floating rate of LIBOR plus a margin of 2.050% from July 2004 to July 2005. On 9 July 2005, and every 9 July thereafter, the counterparty has the right, but not the obligation, to cancel this swap, returning the Group to its previous fixed rate of 7.750%.

  US$600 million of 6.875% Guaranteed Notes, repayable in February 2009. At the time of issuing these notes, the US dollar proceeds were swapped into pounds sterling (£367 million) at an average fixed rate of 8.200%, payable semi-annually. In July 2003, the Group entered into a further interest rate hedging arrangement in respect of £61 million of this swapped debt. The effect of this new hedging arrangement was that, from July 2003 until February 2009, the Group will pay floating six months LIBOR plus a margin of 3.490% on £61 million of its swapped debt. However, at each six monthly reset date, the counterparty to this transaction has the right to cancel the transaction with immediate effect. In October 2003, the Group entered into a further interest rate hedging arrangement in respect of a further £61 million of this swapped debt, the effect of which was to reduce the rate payable to 7.950% for the period August 2003 to February 2004. Thereafter, until August 2006, the rate payable is 7.950% plus any margin by which the floating six monthly LIBOR reset rate exceeds the sum of the previous reset rate plus 0.500%. Thereafter, the rate reverts to a fixed 8.180%.

  US$300 million of 7.300% Guaranteed Notes repayable in October 2006. At the time of issuing these notes, the Group entered into swap transactions to convert the dollar proceeds to pounds sterling (£189 million), half of which carries a fixed rate of interest of 8.384% until maturity, payable semi-annually. The remainder was fixed at 7.940% until 15 April 2002, thereafter floating at 0.620% over six months LIBOR, again payable semi-annually. In respect of this remaining floating exposure, on 16 January 2002, the Group entered into a further interest rate hedging arrangement to fix the rate at 6.130% from 15 April 2002, payable semi-annually for the remainder of the life of the notes.

+ *Revolving credit facility*
  At 30 June 2004, the £600 million facility was undrawn and was available for general corporate purposes. Under the terms of the facility, interest was fixed at 1.125% per annum above LIBOR until June 2004, and thereafter accrues at a margin between 0.600% and 1.125% per annum above LIBOR, depending on the Group's ratio of net debt to EBITDA, provided that the rate does not fall below 0.700% per annum prior to March 2006. The facility has a maturity date of March 2008.

At 30 June 2004, the ratio of net debt to EBITDA was 0.6 (2003: 2.4). Interest cover (the ratio of EBITDA to net interest payable) was 8.7 (2003: 4.1). The Group currently expects these ratios to continue to improve.

Both the bank facilities and the publicly-traded guaranteed notes have been entered into by the Company and guaranteed by British Sky Broadcasting Limited and Sky Subscribers Services Limited.

Fixed and current assets
Intangible assets decreased by £119 million, from £536 million to £417 million, due to the amortisation of goodwill. Intangible assets comprise the goodwill that arose on the acquisitions of British Interactive Broadcasting Holdings Limited ("BiB"), Sports Internet Group plc ("SIG") and WAPTV Limited ("WAPTV").

Tangible fixed assets increased in the year by £30 million, mainly due to £133 million of additions, including investment in CRM and new premises, partly offset by depreciation of £102 million and a disposal of £1 million. Assets in the course of construction increased by £72 million in the year, mainly due to the investment in CRM. Fixed asset investments decreased by £42 million, mainly due to the sale of the Group's investment in Manchester United plc and a further provision against the Group's minority investments in football clubs of £9 million.

Net assets increased by £242 million, principally caused by increased cash held, partly offset by continued amortisation of goodwill and the final proposed dividend.

The Group anticipates issuing and serving a claim in the near future for a material amount against an information and technology solutions provider, which had provided services to the Group as part of the Group's investment in CRM software and infrastructure. The amount that will be recovered by the Group will not be finally determined until resolution of the claim.

Reserves
On 10 December 2003, the High Court approved a reduction in the Company's share premium account of £1,120 million, resulting in the elimination of the Company's deficit on its profit and loss account of £1,106 million, and creating a non-distributable special reserve of £14 million, which represents the excess of the share premium reduction over the deficit.

A new Employee Share Ownership Plan ("ESOP") reserve has been created following the adoption of UITF 38, when a prior year adjustment was made as at 30 June 2003 to reclassify £35 million from fixed asset investments to the new ESOP reserve. During the year, the ESOP reserve has decreased by £5 million, due to the exercise of £27 million executive share options, partly offset by the purchase of £22 million additional ESOP shares.

Treasury policy and risk management
The Group's treasury function is responsible for raising finance for the Group's operations, together with associated liquidity management, and the management of foreign exchange, interest rate and counterparty risks. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed by both the Audit Committee and the Board, who receive regular updates of treasury activity. Derivative instruments are

Sky One
The UK's leading non-terrestrial entertainment channel. 'Rebecca Loos – My Story' drew over 1.7 million viewers in April 2004, the climax of David Blaine's 'Above the Below' attracted over two million viewers in August 2003, and an episode of 'The Simpsons', featuring Tony Blair, attracted over 1 million viewers.

transacted for risk management purposes only. It is the Group's policy that all hedging is to cover known risks and that no trading in financial instruments is undertaken. Regular and frequent reporting to management is required for all transactions and exposures, and the internal control environment is subject to periodic review by the Group's internal audit team and by the Treasury Committee. The Group's principal market risks are its exposures to changes in interest rates and currency exchange rates, which arise both from the Group's sources of finance and from its operations. Following evaluation of those positions, the Group selectively enters into derivative financial instruments to manage these exposures. The principal instruments used are interest rate swaps and swaptions to hedge interest rate risks, forward rate agreements to hedge transactional currency exposures and cross-currency interest rate swaps to hedge exposures on long-term foreign currency debt.

Interest rate management The Group has financial exposures to both sterling and US dollar interest rates, arising primarily from bank borrowings and long-term bonds. These exposures are managed by borrowing at fixed rates of interest and by using interest rate swaps to adjust the balance between fixed and floating rate debt. All of the Group's dollar-denominated debt has been swapped to sterling, using cross-currency swap arrangements, which, in addition to the translation of the principal amount of the debt to sterling, also provide for the exchange, at regular intervals, of fixed-rate amounts of dollars for fixed-rate amounts of sterling. All of the Group's debt exposure is denominated in sterling after cross-currency swaps are taken into account; at 30 June 2004, the split of aggregate borrowings into their core currencies was US dollar 90% and sterling 10% (30 June 2003: US dollar 84% and sterling 16%). The Group also enters into sterling interest rate swap and swaption arrangements, which provide for the exchange, at specified intervals, of the difference between fixed rates and variable rates, calculated by reference to an agreed notional sterling amount. The fair value of interest rate and cross-currency swaps held as of 30 June 2004 was approximately £105 million against the Group's favour (30 June 2003: £7 million in the Group's favour).

The Group is also exposed to floating interest rates under its RCFs. At 30 June 2004, the RCFs were not drawn upon (30 June 2003: RCFs represented 7% of the Group's total debt). 77% of the Group's total debt at 30 June 2004 is fixed-rate after taking account of interest rate swaps (30 June 2003: 93%). To ensure continuity of funding, the Group's policy is to secure funding that matures over a period of years. At 30 June 2004, 31% of the Group's available funding was due to mature in more than five years (30 June 2003: 47%).

Currency exchange rates The Group's revenues are substantially denominated in sterling, although a significant proportion of operating costs is denominated in US dollars. In the year to 30 June 2004, 14% of operating costs (£439 million) were denominated in US dollars (30 June 2003: 15%; £424 million). These costs relate mainly to the Group's long-term programming contracts with US suppliers.

The Group currently manages its US dollar/sterling exchange rate risk exposure by the purchase of forward foreign exchange agreements for up to 18 months ahead. All forward rate agreements are in respect of firm commitments only, and represent approximately 80% (30 June 2003: 90%) of dollar-denominated costs over the relevant 18-month period.

At 30 June 2004, the Group had outstanding commitments to purchase in aggregate US$705 million at average rates of US$1.62 to £1.00. Although these financial instruments can mitigate the effect of short-term fluctuations in exchange rates, there can be no completely effective hedge against long-term currency fluctuations. The Group's primary Euro exposure arises as a result of revenues generated from subscribers in Ireland. These Euro-denominated revenues are offset to a certain extent by Euro-denominated costs, relating mainly to certain transponder rentals, the net position being a Euro surplus.

During the year, surplus Euros were exchanged for sterling on currency spot markets. In the twelve months to 30 June 2004, Euro 15 million (2003: Euro 59 million) was exchanged at spot rates for sterling. A further Euro 122 million has been retained to meet obligations under forward foreign exchange contracts for the purchase of Swiss francs (see below).

The Group has purchased the programming rights to certain UEFA Champions League football matches until the end of the 2005/06 season. Payments in respect of these rights are made pursuant to the contract in Swiss francs, which means that the Group will be exposed to the Swiss franc/sterling exchange rate. In line with the Group's policy of limiting foreign exchange transactions to fixed price instruments, 90% of this exposure (CHF 100 million) has been hedged via the use of forward contracts for the exchange of Euros and sterling for Swiss francs. Since 30 June 2004 all of this exposure has been hedged.

EARNINGS PER SHARE

18.3 pence

EPS BEFORE GOODWILL AND EXCEPTIONAL ITEMS INCREASES BY 79% TO 18.3 PENCE

£882 million

NET OPERATING CASH INFLOW INCREASES BY 33% TO £882 MILLION

Risk identification and management
Management continues to develop and review its processes for the identification and management of business risks. Examples of the risks facing the business include: the highly competitive environment in which the Group operates, which is subject to rapid technological change; reliance on technology which is subject to obsolescence, change and development; changes in the broadcasting, telecommunications and competition regulatory environment, primarily in the UK and the European Community; reliance on intellectual property and proprietary rights; reliance on a limited number of customers to generate wholesale revenues; and the financial and other obligations imposed upon the Group in a number of long-term agreements and/or other arrangements.

The Group mitigates these risks as far as possible through a number of risk management processes. These include a Risk Management Committee, chaired by the Chief Financial Officer and comprising senior executives. The Committee meets at least four times a year to review the adequacy of systems and procedures controlling risks throughout the business. In addition, the Audit Committee monitors and reviews the effectiveness of the internal audit and risk management function.

Adoption of International Financial Reporting Standards Following a Regulation issued by the Council of the European Union, the Group, along with all European Union listed groups, is required to adopt International Financial Reporting Standards ("IFRS") in the preparation of its consolidated financial statements from 1 July 2005. The adoption of these standards will lead to significant changes in the Group's accounting policies, results, and the presentation of its financial statements, which are currently in accordance with UK generally accepted accounting principles ("UK GAAP").

In 2003, the Group established an IFRS transition steering committee, comprising the Chief Financial Officer, senior finance management and an independent adviser. The Committee is responsible for monitoring the progress of a dedicated transition working group, for decision-making, and for reporting to the Audit Committee in relation to the transition. The working group is undertaking an extensive analysis of the impact of IFRS across the Group, with the objective of ensuring full compliance with IFRS by 1 July 2005. Implementation plans are in progress to modify procedures, systems and controls as necessary. Training of the Group's finance function in IFRS commenced in 2004, and the Group has been active in responding to public consultation documents issued by bodies including the International Accounting Standards Board ("IASB"), the Accounting Standards Board and the Securities and Exchange Commission on issues relating to the mandatory transition of European listed groups to IFRS.

Several uncertainties remain which affect the Group's ability to assess the impact of IFRS, including whether the European Union will endorse the IFRS relating to financial instruments IAS 32 "Financial Instruments – Disclosure and Presentation" and IAS 39 "Financial Instruments – Recognition and Measurement" and whether the IASB and other related bodies will issue new or revised standards which will either be mandatory for the Group's 30 June 2006 financial statements, or which the Group could adopt early voluntarily. However, based on the Group's initial assessment, the key changes to the Group's accounting policies as a result of the adoption of IFRS are expected to be in the following areas:

+ *Intangible assets*
  IAS 38 "Intangible assets" provides more detailed guidance on intangible assets than UK GAAP, which may result in the reclassification of certain costs into intangible assets, including software development costs which are currently included within tangible fixed assets within the Group's balance sheet.

+ *Financial instruments and hedge accounting*
  The Group uses cross-currency and interest rate swaps and swaptions, and forward purchases of US dollars and Swiss francs to hedge its foreign currency and interest rate exposures. Under UK GAAP, these financial instruments are not recognised on the balance sheet, however, under IFRS, the Group will be required to recognise its derivative financial instruments on the balance sheet at fair value, with changes in fair value being recognised in the profit and loss account. Where hedge accounting is achieved under IAS 39, the profit and loss impact of the changes in fair value may be postponed and matched to the profit and loss account impact of the underlying hedged exposure. The Group does not see a requirement to change its current hedging policy as a result of the new requirements for achieving hedge accounting under IAS 39 and expects to be able to achieve hedge accounting for the majority of its financial instruments.

+ *Share-based payments*
  Under current UK GAAP, the Group recognises a charge in the profit and loss account for its Long Term Incentive Plan ("LTIP"), Equity Bonus Plan ("EBP") and Key Contributor Plan ("KCP") based on the difference between the exercise price of the award and the price of a BSkyB share on the date of grant (the "intrinsic value"). Under IFRS 2 "Share-based payment", the Group will be required to recognise a charge in the profit and loss account for all share options and awards based on the fair value of the awards as calculated at the grant date using an option-pricing model. This will introduce an additional cost for the Group, as Executive Scheme options, which have an intrinsic value of nil, and Sharesave scheme options, which are specifically exempt from the scope of current UK GAAP accounting, will have a fair value attached to them, and hence an associated profit and loss account charge under IFRS.

Left: Signing on Sky Sports
Sky has received recognition for its disability strategy, at the Business In The Community ("BiTC") Awards for Excellence 2004. The BiTC Realising Ability Award went to the Sky Disability Strategy, for its work in promoting understanding of disability issues and providing dedicated services for disabled customers.

Right: PDA device (mobile field force technology) used by installers
Sky has rolled out an integrated PDA and mobile phone device to all of its installers as one of its initiatives to improve information management. Installers' productivity is increased as the PDA is continuously updated with installation booking details and last minute changes as they occur.

+ *Goodwill*
  Under UK GAAP, the Group amortises goodwill on a straight-line basis over periods of up to 20 years. Under IFRS 3 "Business Combinations", goodwill will no longer be amortised and will instead be subject to annual impairment testing. This will remove the cost of goodwill amortisation from the Group's profit and loss account, although impairment losses, if identified, would be recorded in the profit and loss account.

This list should not be taken as a comprehensive or complete indication of the impacts that the adoption of IFRS may have on the Group's financial statements, but it is indicative of the major adjustments to its financial reporting that the Group has identified to date.

Corporate responsibility

Corporate responsibility at Sky is about making the Group successful and responsible, flexible to market requirements as well as to the expectations of our stakeholders. Following the publication of our first corporate responsibility report in September 2003, the Group has continued to work to address its responsibilities to its customers and employees, to the environment, in our supply chain and to the local and national communities in which it operates.

In October 2003, the Board appointed a Non-Executive Director to chair a newly-created steering committee on corporate responsibility. The steering committee, which includes the Chief Executive Officer, senior executives and Non-Executive Directors, is tasked with setting the vision, values and reviewing the achievement of corporate responsibility goals for the Group. In order to take account of social and environmental risks, the Group developed its first corporate responsibility risk register in April 2004. Community investment, through the flagship initiative 'Reach for the Sky', continues to demonstrate the Group's commitment to young people reaching their full potential. The Reach for the Sky initiative was awarded a Business in the Community Award for Excellence from the Department of Trade and Industry ("DTI") for its innovative use of the power of the brand to increase young people's participation in education and learning.

Full details of Sky's corporate responsibility activity are available in a separate document (Corporate Responsibility Review 2004) and on the web at www.sky.com/responsibilities.

Employees

The Group's aim is to provide a stimulating working environment and support diversity within the workplace, to recognise the new ideas and dedication individuals bring to their roles and to seek their views on how to support their aspirations at Sky. During the financial year, the average number of full-time equivalent employees of the Group increased by 4% to 9,500.

In order to develop employees' skills and knowledge, to motivate them in their roles and enable them to meet the Group's business objectives, the Group's training and development policy aims to integrate learning within the work environment; to develop the skills of employees and provide them with the knowledge to undertake their current and future roles; to promote self-development as a responsibility of every individual; to support employees during training and development in line with the needs of the business; and to motivate employees by providing them with personal development opportunities.

The Group aims to achieve this through a number of methods, including a corporate induction programme, workplace training, coaching and professional updates, internal and external training and development courses, and continuous self-development support from heads of departments and the Human Resources department.

The Sky Forum, a panel of Sky staff elected by Sky staff, was launched in July 2004. 70 Forum Members will represent 48 constituencies across Sky's businesses, locations and work patterns. The ballot process is being managed independently by The Electoral Reform Society.

Forum Members will help the Group to achieve its business objectives by creating an effective channel for dialogue, involving people from all levels and locations in the business. In addition to discussing how the Group can make Sky a better place to work, the Group will also be consulting members on issues such as health and safety, training and development and work practices. In this way, the Sky Forum continues the good work of the previous Sky Speakers and Employee Forum initiatives.

In addition to the learning and development opportunities within the Group, the Group aims to incentivise and motivate its employees through benefits such as an Inland Revenue-approved sharesave scheme, a Give-As-You-Earn Scheme, the BSkyB Pension Plan, complimentary Sky+ standard installation and digital subscriptions, a healthcare plan and an occupational health department.

Employee share option schemes

The Group manages its risk in respect of certain employee share option schemes through a dedicated Employee Share Ownership Plan, which purchases the Company's shares in the open market from time to time. The accounting policies in respect of market risk sensitive instruments are disclosed in the financial statements in notes 1 and 20.

3 August 2004

"Corporate responsibility at Sky is about making the Group flexible to market requirements and to the expectations of its stakeholders."

OUR PRODUCTS GREAT NEW TECHNOLOGY, MORE CHOICE THAN EVER BEFORE, INVESTMENT IN QUALITY ORIGINAL PROGRAMMING, ACCESS TO THE BIGGEST MOVIES, AWARD-WINNING NEWS COVERAGE AND THE PLACE TO WATCH SPORT ON TV. OUR PRODUCT NEVER STANDS STILL, BECAUSE OUR CUSTOMERS WANT THE BEST.

NEWS

In the past 15 years, Sky News – Europe's first 24-hour news broadcaster – has changed the face of UK news broadcasting by creating an expectation among viewers of seeing breaking news live.

SKY NEWS AUDIENCE PROFILE
Jan–June 2004

	ABC1	C2	DE
Sky News	**46%**	**27%**	**27%**
Total TV	45%	23%	32%

Source: BARB

Sky News first

Valued for its fairness, balance and journalistic objectivity by both viewers and regulators, the award-winning channel has earned a reputation for the speed and flexibility of its coverage.

Throughout the year, Sky News performed strongly and, for the third year running, was named RTS News Channel of the Year. At a time which saw all the 24-hour TV news channels striving to raise their game, the RTS judges felt, "none yet matched the winner who had continued to innovate in their coverage of the war and elsewhere and, as a news channel, remains – simply the best!"

Sky News also won the RTS Innovation Award for both its Hutton Inquiry coverage, which used actors to provide daily reconstructions of the proceedings, and its near instantly-aired transcripts of the Soham trial – a television first. The RTS judges said Sky News' solutions to the problem of covering judicial proceedings, where cameras are banned, were both "radical and imaginative."

The awards underline Sky News' reputation for both breaking news and innovation. Other innovations introduced this year include the SkyCopter, a helicopter which allows the Sky News team to cover major stories where scale is important. It was used to great effect at last year's Notting Hill Carnival, to cover the England Rugby Team's homecoming parade, and by presenter Kay Burley to report, in a single day, from various UK cities as part of Sky News' Budget coverage. Sky News' fleet of satellite trucks has been adapted to receive pictures from the SkyCopter.

In addition, Sky News opened a new bureau in India in January, underlining its commitment to international coverage. The bureau, headed up by Sky News' Richard Bestic, covers breaking news across the Indian sub-continent, from Pakistan, to India, to Bangladesh. Earlier this year, presenter Lisa Aziz and award-winning correspondent, David Chater, broadcast live from Mecca and Jeddah on the Hajj, bringing viewers the most comprehensive coverage ever shown by a non-Muslim broadcaster of the largest religious ceremony in the world.

On 10 May, Sky News launched a new service for Ireland. Sky News Ireland, anchored by Gráinne Seoige, provides two nightly bulletins of news for Ireland. The output is also carried on a loop on Sky News Active, allowing viewers in both the UK and Ireland to catch up on Irish news.

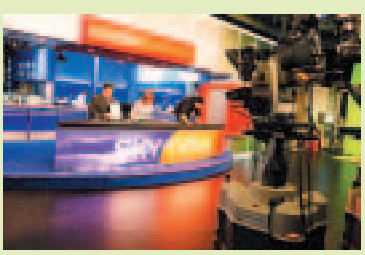
Last autumn, Sky News' Westminster studio and gallery at Millbank were revamped into state-of-the-art facilities from which set piece events, news coverage and 'Sunday with Adam Boulton', are broadcast.

"A pioneering service of 24-hour core news with interactive spin-offs."

Patricia Hodgson Former Chief Executive of the Independent Television Commission, 'Broadcasting and Democracy' speech, November 2003

130,000

FOR THE PAST 15 YEARS, SKY NEWS HAS PROVIDED MORE THAN 130,000 HOURS OF UP-TO-THE-MINUTE GLOBAL NEWS COVERAGE AND EXPERT IMPARTIAL ANALYSIS.



Breaking News
With bulletins every hour, 24-hours a day, Sky News keeps viewers around the world fully informed.

All TV viewing figures sourced from BARB

In March, Sky News was awarded the contract to supply five with its news service beginning on 1 January 2005, the first time that Sky News will supply a full news service to an analogue terrestrial broadcaster.

As well as a dedicated team of 60 reporters, producers and technicians, the service will include access to Sky News' existing 24-hour operation, including five regional bureaux and the seven international bureaux in Washington, Moscow, Jerusalem, Beijing, Johannesburg, Brussels and Delhi. News anchor Kirsty Young will continue to present five's flagship bulletins at 17.30 and 19.00 but from a purpose-built, state-of-the-art studio at Sky News' base in West London.

The five contract, combined with both Sky News' continuing innovations and its unrivalled expertise in breaking news, will ensure that Sky News remains at the forefront of news provision in the 21st century.

No.1

MORE AWARDS FOR SKY NEWS: DURING 2004 SKY NEWS WON THE RTS NEWS CHANNEL OF THE YEAR AWARD FOR THE THIRD YEAR RUNNING.

AWARD

RTS AWARD JUDGES: SKY NEWS "AS A NEWS CHANNEL, REMAINS SIMPLY THE BEST!"

MORE INNOVATION

Hutton Inquiry reconstruction/ Soham trial transcripts
The RTS Innovation Award judges said Sky News' solutions to the problem of covering individual proceedings, where cameras are banned, were "radical and imaginative".

SkyCopter
The SkyCopter allows the Sky News team to cover major stories where scale is important.

India bureau
Launched in January 2004, Sky News' India bureau covers breaking news across the Indian sub-continent.

SPORTS

In the year, Sky Sports secured new broadcast rights, witnessed historic live events and set a new audience record.

SKY SPORTS AUDIENCE PROFILE
Jan–June 2004

	Men	Women
Sky Sports	67%	33%
Total TV	47%	53%

Source: BARB

Sky Sports offered over 36,000 hours of coverage across five dedicated sports channels, secured new programming contracts and extended interactive coverage to new sports events.

It gave subscribers a diverse schedule of live sports programming throughout the year and from around the world, including victory for England's cricketers in the Caribbean and teams from every participating nation in rugby union's Heineken Cup.

Among the year's landmarks were Sky's first live UEFA Champions League matches and a new record audience, when England's Euro 2004 Qualifier against Turkey, in October 2003, attracted Sky's largest-ever audience, with an in-home peak of 4.2 million viewers.

Other rating successes of the year included the Super League's Play-Offs, Spanish La Liga football, NFL American Football and the World Darts Championship.

Sky Sports' first season of live UEFA Champions League coverage attracted strong ratings, critical acclaim and praise from governing body UEFA. Sky digital customers could use interactivity to choose from up to 8 live matches being played simultaneously.

During the year Sky Sports also won new deals for live Spanish La Liga football, live Welsh home international football, and secured new agreements with the English Football Association and the FA Premier League. Exclusively-live rights to a number of World Cup qualifiers were also secured, including the opening matches for England and Wales in September 2004.

The 2004-05 season will be the most televised football campaign ever on Sky Sports, with over 450 live games from a range of competitions.

Following the award of four live packages of FA Premier League rights to Sky in August 2003, Sky viewers will now be able to watch more live matches from the Barclays Premiership. Sky Sports will show 88 live matches, 22 more than previously, with an extra 50 live matches offered on the pay-per-view service, PremPlus.

Sky Sports also holds a new near-live package of rights. These will be broadcast in a new 'Football First' programme, which will offer extended highlights of every Premiership match played that day, with viewers able to choose which match they watch through Sky Sports' interactive service.

The year was also the busiest ever for rugby union production, with over 100 live matches stretching through every month of the year. A new deal for European Heineken Cup Rugby brought comprehensive coverage, with up to five live matches from each round.

Live cricket was also broadcast throughout the year and featured every domestic county and every Test nation. England's tour to the West Indies produced their first tour victory in the Caribbean for 34 years and the highest cricket audiences for two years.

At home, the domestic Twenty20 Cup, a new event in 2003, was a ratings success, attracting audiences three times the size of its predecessor, the B&H Cup.

MORE LIVE SPORT
THAN EVER

Sky Sports offered more hours, more live matches and more interactivity than ever before.

5th ANNIVERSARY

SKY SPORTS NEWS MARKED ITS FIFTH ANNIVERSARY IN OCTOBER 2003, WITH RECORD AUDIENCES UP 100% YEAR-ON-YEAR

4.2 MILLION VIEWERS

ENGLAND'S EURO 2004 QUALIFIER AGAINST TURKEY ATTRACTED SKY'S BIGGEST-EVER AUDIENCE, AN IN-HOME PEAK OF 4.2 MILLION VIEWERS

In rugby league, a new deal was concluded for the domestic Super League, Great Britain internationals and a new Tri-Nations tournament. In boxing, a new deal with Sports Network saw British World champions, Joe Calzaghe and Ricky Hatton, continue to be covered on Sky Sports. Meanwhile, Sky Box Office offered world title fights featuring Lennox Lewis, Oscar De La Hoya and Bernard Hopkins.

Sky Sports News marked its fifth anniversary in October 2003, with record audiences, which had doubled year-on-year. The channel, which was the first all-new digital channel at launch, is now available on digital terrestrial and cable services as well as on the Sky DTH platform.

Sky Sports Xtra, which launched on Sky digital in 1999, extended its reach by more than two million homes as carriage deals were concluded with Telewest and ntl.

Skysports.com also set new records, with its highest-ever, audited figures of more than 113 million page impressions and over 3.6 million unique users in June 2004 (Source: ABCe). It is now established as the UK's most-visited commercial sports site.

"Never before have the turned-on masses been presented with such a choice of football matches."

The Independent 22 September 2003

UEFA Champions League
Sky's coverage attracted strong ratings, critical acclaim and praise from governing body UEFA.

In the 2003-04 season Sky Sports broadcast 103 live matches from the UEFA Champions League over 21 nights.

The Heineken Cup
The Heineken Cup came exclusively to Sky Sports, bringing 37 live European rugby union matches.

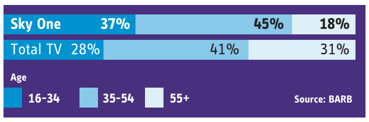
England in the West Indies
England's historic victory in the West Indies was seen by the highest cricket audiences for two years.

All TV viewing figures sourced from BARB

ENTERTAINMENT

At Easter 2004, the combined audience for non-terrestrial television channels exceeded each of BBC One and ITV1 in total television homes.

SKY ONE AUDIENCE PROFILE
Jan–June 2004



1 MILLION VIEWERS

NIP/TUCK AND 24 BOTH LAUNCHED SUCCESSFULLY ON SKY ONE WITH THE OPENING EPISODES BOTH ACHIEVING AN AVERAGE AUDIENCE OF 1.04 MILLION

Sky One

Multichannel services, including Sky One, ITV2 and UK Gold, reached another landmark in March 2004, surging past each of ITV1 and BBC1 to take the largest share of the total TV audience.

This was the first time the multichannel networks had won the largest audience share outside the summer months, a traditionally weak period for the five main terrestrial networks.

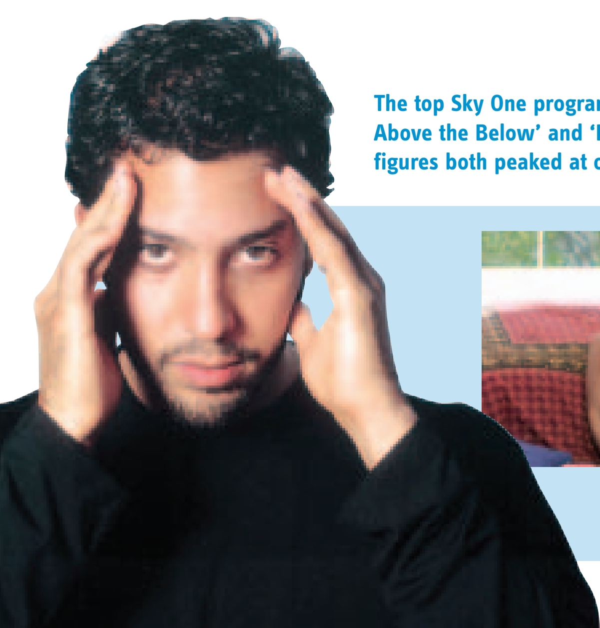
In line with its ambition to be the home of top US programming, Sky One showcases a range of award-winning acclaimed shows such as 'Nip/Tuck', '24', 'Las Vegas', 'Cold Case', 'Tru Calling', 'Angel', 'Scrubs', 'Malcolm in the Middle' and the world's favourite animated family and the most successful animation series of all time, 'The Simpsons'.

During the year, Sky One achieved some of its largest ever audiences. A peak audience of more than 2 million tuned in to watch Rebecca Loos give her side of the Beckham scandal in 'Rebecca Loos – My Story'. In August 2003 David Blaine was suspended in a perspex box, and over 2 million viewers watched the climax of the 44 day event. 'There's Something About Miriam' became a global story, as Sky One followed the exploits of six lads competing for the affection of Mexican beauty, Miriam. A reality series with a stunning twist, the show was a huge success in early 2004.

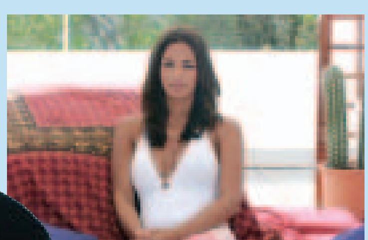
At the heart of the Sky One schedule is the commitment to commissioning and developing long-standing series like 'Brainiac'; this is complemented with a growing reputation for fast turn around topical documentaries, such as 'Rebecca Loos – My Story' and 'John Leslie – My Year of Hell'.

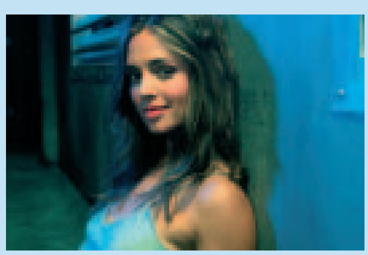
This autumn, Sky One will launch a new look and a raft of top quality acquired and original programmes. These include the critically-acclaimed HBO drama, 'Deadwood', the US ratings success 'The 4400' and 'The Match', a brand-new series, mixing football with a potent reality format. Returning series include the eighth season of Dream Team and a new series of Brainiac.

Sky One also provides user-friendly interactive services allied to individual programmes, which generate incremental revenues for Sky. '24' and 'Nip/Tuck' fans were able to catch video recaps and previews of the plot, as well as to access additional information about the shows, and play quizzes and games.



The top Sky One programmes of the year were 'David Blaine – Above the Below' and 'Rebecca Loos – My Story', whose audience figures both peaked at over 2 million.





From top anticlockwise:
24
David Blaine
There's Something About Miriam
Tru Calling

All TV viewing figures sourced from BARB

MOVIES

Sky viewers love movies. In 2003, the number of Sky Movies' subscribers reached 5 million, and the service achieved more million+ rating films than in any other year since the launch of digital.

The central aim of Sky's movie services is to satisfy the subscribers' appetite for movies on television by giving them choice, quality and convenience.

Sky Movies evolved in November 2003 into an 11 screen service, split into nine Sky Movies screens, showing a wide variety of blockbuster movies from 'Harry Potter and the Chamber of Secrets' to 'My Big Fat Greek Wedding', and two Sky Cinema screens, showing the best classic movies from the 20th century and a new, dedicated World Cinema strand.

Sky Movies has also introduced technical innovations, such as interactive multistarts, to add further value to the movie proposition, enabling viewers to watch the biggest premieres at a time to suit them. Skymovies.com has become one of the UK's most respected movie websites that provides information about, and reviews of, every movie showing on Sky Movies over the next seven days.

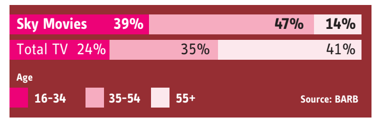
Sky Box Office, the pay-per-view service, offers a choice of over 200 films each year, as well as live music, boxing and wrestling events. In the past year, Sky Box Office has shown most of the biggest theatrical movies of 2003 including 'Lord of the Rings: The Two Towers' and 'Pirates of the Caribbean'. In addition, most movies are now available significantly earlier, the gap between video and pay-per-view having halved from 6 to 3 months over the last year.

SKY MOVIES IS OVER THREE TIMES BIGGER THAN THE UK'S ENTIRE VIDEO RENTAL SECTOR. OUR CUSTOMERS WATCHED A TOTAL OF 10.5 MILLION MOVIES PER WEEK IN 2003 (BY HOUSEHOLD), VERSUS JUST 3 MILLION WEEKLY VIDEO RENTALS.

450 **MOVIES/WEEK**

SKY MOVIES SHOWS OVER 450 DIFFERENT MOVIES EVERY WEEK: AROUND 8 TIMES AS MANY AS ANY OTHER SUBSCRIBER MOVIE SERVICE ON UK TELEVISION.

SKY MOVIES' AUDIENCE PROFILE
Jan–June 2004



From top anticlockwise:
The Lord of the Rings: The Two Towers
One Hour Photo
Shallow Hal
My Big Fat Greek Wedding

Top Sky Box Office movies 2003/04

1 Johnny English
2 Bruce Almighty
3 My Big Fat Greek Wedding
4 Men in Black II
5 Pirates of the Caribbean
6 Die Another Day
7 Catch Me If You Can
8 Signs
9 The Bourne Identity
10 Phone Booth

MORE QUALITY

Sky Movies shows around 90% of the top 100 grossing theatrical movies each year, on average around 15 months before they are shown on terrestrial television.

All TV viewing figures sourced from BARB

PRODUCT INNOVATION

Sky continues to lead the way in digital TV, putting viewers in control. Sky+ sales have grown during the year and feedback from Sky+ customers since it first launched in 2001 has been outstanding. The Group is constantly working to ensure that Sky offers the best TV experience available anywhere.

Sales increase

Since July 2003, Sky has increased the number of Sky+ sales to 397,000. Over 90% of customers rate their satisfaction with Sky+ between 8 and 10 (on a scale of 1 to 10).

Advertising campaign

In October 2003, Sky launched the heavyweight 'Create your own TV channel' marketing campaign aimed at both existing Sky digital customers and non-subscribers. The campaign's creative concept used a series of well-known celebrity "odd couples": Alice Cooper and Ronnie Corbett; Bruce Forsyth and Kelly Brook; Simon Callow and Noddy Holder; and most recently, Mike Reid and David Hasselhoff.

Sky continued to enhance the service offered to all Sky+ customers. In December 2003 the most significant upgrade yet was made to all Sky+ boxes, adding the ability to record two channels simultaneously, whilst watching another previously recorded programme at the same time. This download was automatically delivered to all Sky+ boxes free of charge.

Sky+ continued to attract a wide variety of positive reviews and comments from the press. It was ranked number one in both The Guardian's and The Independent's guides to gadgets for 2003.

9/10

Sky+ customers say they are likely to recommend it to a friend.

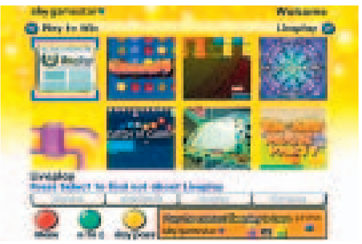
"...I had a Sky+ box installed. Suddenly, instead of the handful of channels, a tsunami of programming has broken in my living room... and Sky+ is a wonderful thing..."
The Evening Standard 18 March 2004

"...Still the best hard drive video recorder thanks to the tight integration of Sky's on-screen programme guide..."
Stuff magazine November 2003

Sky+ advertising campaign
Featuring Alice Cooper, Ronnie Corbett, Mike Reid, David Hasselhoff, Bruce Forsyth and Kelly Brook.

5th ANNIVERSARY

IN OCTOBER 2003, SKY CELEBRATED THE 5TH ANNIVERSARY OF SKY DIGITAL. JUST PRIOR TO THE ANNIVERSARY, SKY HIT THE KEY TARGET OF ACHIEVING 7 MILLION SUBSCRIBERS AHEAD OF SCHEDULE.



From top to bottom:
New look for Sky Gamestar
Sky Vegas Live
Launch of the National Lottery on Sky

More interactivity for Sky digital viewers

Sky One Active

Sky One has continued to enhance its most popular shows, such as 'Dream Team', '24', 'Double or Nothing', 'Battlestar Galactica', 'Stargate' and 'There's Something About Miriam', with engaging interactive services. In addition to voting, games and quizzes, viewers could interact with the third series of the hit drama, '24'.

By pressing the red button, fans of the show could access exclusive highlights, character profiles, research files and an essential episode guide at the touch of a button.

Sky Sports Active

In September 2003, Sky Sports launched a ground-breaking interactive service for the UEFA Champions League, giving viewers the chance to choose from up to eight simultaneous live matches.

Sky Vegas Live

Sky launched its first live interactive entertainment and gambling channel, Sky Vegas Live, in March 2004. Broadcasting daily from 6.00pm to 2.00am, the channel is hosted by a team of presenters from a state-of-the-art virtual studio and features live programming, including the interactive Super Keno draw based on the fixed-odds numbers game made famous in Las Vegas. Players can play for a chance to win the £1 million jackpot on Super Keno 15.

Sky Gamestar

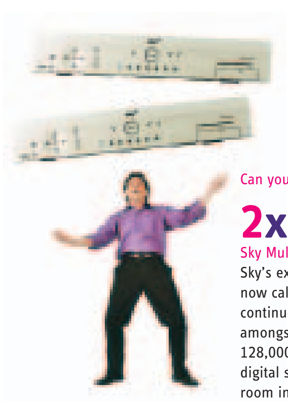
A new-look Sky Gamestar service was unveiled in December 2003, with an eight-screen interactive video menu, faster load times and improved navigation in addition to a range of new games.

Launch of Liveplay on Gamestar

In June 2004, the new Liveplay service launched on Sky Gamestar, enabling digital satellite viewers to play games such as Battleships and Connect 4 against people in other digital satellite households in real time.

Launch of the National Lottery on Sky Active

Sky Active users can now buy their Lotto tickets without leaving the sofa via the new National Lottery Service, that launched in April 2004. Players can buy up to eight weeks' worth of tickets in advance, and no longer have to worry about losing their ticket or forgetting to check their numbers, as tickets will be stored securely. If they win, the service will inform them the next time that they sign in.



Can you handle it?

2xSky
Sky Multiroom
Sky's extra subscription offer, now called Sky Multiroom, has continued to gain popularity amongst customers, with over 128,000 taking up an extra Sky digital subscription in another room in the home in the year.

DIGITAL SATELLITE CHANNEL LINE-UP

Sky's digital satellite platform provides over 450 wide-ranging channels to over 7.4 million customers throughout the UK and Ireland. Whatever interests them, whether it's live sport, the latest movies, award-winning breaking news, or original and innovative entertainment, Sky's customers are offered what they want.

From top to bottom:
Brainiac
The Simpsons

83 Entertainment channels
BBC ONE
BBC TWO
ITV1
Channel 4
five
Sky One
Sky One Mix
UKTV Gold
UKTV Gold +1
UKTV G2
Living TV
Living TV +1
BBC THREE
BBC FOUR
Plus
Challenge?
Bravo
Bravo +1
Paramount Comedy
Paramount Comedy 2
Sci-Fi
Discovery Home & Leisure
Discovery Home & Leisure +1
Men and Motors
Sky Travel
Sky Travel Extra
UKTV Style
UKTV Style +1
UKTV Food
UKTV Food +1
UKTV Drama
Travel Channel
Travel Channel 2
S4C ~ Digidol
Discovery Health
Artsworld
Life TV
E4
E4 +1
Overload
Game Network
ITV2
You TV
BEN
Reality TV
Hallmark
E!
UKTV Bright Ideas
Ftn
Performance
FRIENDLY TV
ACTV
L!VE TV
Nation217
Fashion TV
OBE
Game in TV
The Biography Channel
Hollywood TV
Get Lucky TV
Classics TV
FX
Sky Vegas Live
BBC2 Scotland
BBC2 W
BBC2 NI
BBC1 Regional (17 channels)

31 News and documentary channels
Sky News
Bloomberg
BBC News 24
BBC Parliament
CNBC
CNN
ITV News Channel
Euro News
Fox News
CCTV9
Discovery Channel
Discovery Channel +1
Discovery Travel and Adventure
Discovery Civilisation
Discovery Science
Discovery Wings
National Geographic
National Geographic Channel+1
Adventure One
The History Channel
History +1
UKTV Docs
UKTV Docs +1
BBC Parliament
S42 ~ 2
UKTV People
Animal Planet
Animal Planet +1
UKTV History
UKTV History +1
Community Channel

21 Kids' channels
Cartoon Network
Cartoon Network Plus
Boomerang
Nickelodeon
Nickelodeon Replay
Nick Toons TV
Trouble
Trouble Reload
Fox Kids
Fox Kids +
Disney Channel
Disney Channel +1
Toon Disney
Playhouse Disney
Discovery Kids
CBBC
CBeebies
Nick Jr.
POP
POP Plus
Toonami

78 Movie channels
Sky Movies 1
Sky Movies 2
Sky Movies 3
Sky Movies 4
Sky Movies 5
Sky Movies 6
Sky Movies 7
Sky Movies 8
Sky Movies 9
Sky Cinema 1
Sky Cinema 2
Film Four
Film Four +1
FilmFourWeekly
TCM
The Horror Channel
Sky Box Office (62 channels)

20 Sports channels
Sky Sports 1
Sky Sports 2
Sky Sports 3
Sky Sports Xtra
MUTV
Sky Sports News
Eurosport GB
Eurosportnews 24hr
Motors TV
attheraces
NASN
Extreme Sports
Chelsea TV
Golf TV
i Sports TV
Wrestling Channel
PremPlus
Setanta Sports
Setanta PPV1
Setanta PPV2

65 Music channels
MTV
MTV Hits
MTV 2
MTV Base
MTV Dance
VH1
VH2
VH1 Classic
TMF
The Box
KISS
Smash Hits
Magic
Q
Kerrang!
Chart Show TV
The Vault
B4
The Hits
Classic FM TV
channel U
The Amp
Scuzz
Flaunt
Musicians Channel
Music Choice (10 channels)
Music Choice Extra (30 channels)

85 Radio channels

89 Specialist channels
Avago Balls
Information TV
QVC
TV Travelshop
TV Travelshop 2
TV Shop
Ideal World
Price Drop TV
Shop America
Lunn Poly TV
Simply Shop
Best Direct
Simply Home Entertainment
Simply Ideas
TV Warehouse
Snatch It
bid-up.tv
Thomas Cook TV
Telsell
Best Direct +4
Auction World
Shop on TV
Thane Direct
ShopSmart
TVWarehouse
Vector 24/7
Stop+ Shop
Yes
Screenshop
Factory Outlet
JML Direct
Chase-it.tv
Vitality
Sky Travel Shop
Deal of the Day
God Channel
God 2
Wonderful TV
TBN Europe
Revelation
UCB TV
TV Job Shop
Dating Channel
Open Access
Gay Date TV
Chat Box
Escape
Create & Craft
E&M TV (Exchange & Mart TV)
Teletext Hols
Broadband TV
Golf Pro-Shop
B4U Movies
B4U Music
Sony TV Asia
STAR News
STAR Plus
PCNE Chinese
mta-muslim TV
Zee TV
Zee Music
Zee Cinema
Bangla TV
ARY Digital
Prime TV
Southforyou
Alpha EtcPun
Al Jazeera
ART Movies
ART Music
MBC
Abu Dhabi
TV5
ATN
SAB TV
Record TV
DW-TV
TVEi
Islam Channel
Bollywood TV
Pub Channel
SkyVenue
Soundtrack Channel
Advert Channel
Vectone Urdu
Vectone Bolly
Vectone Tamil
Vectone Bangla

34 Adult channels

3 Customer channels

Correct as at 30.6.04