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

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION
# Washington, D.C. 20549

# FORM 20-F

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

OR

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

For the fiscal year ended 30 June 2008

OR

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

OR

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

**Commission file number: 1-13488**

## British Sky Broadcasting Group plc

*(Exact name of Registrant as specified in its charter)*

## England & Wales

*(Jurisdiction of incorporation or organisation)*

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

*(Address of principal executive offices)*

**David Gormley**
**Company Secretary**
**British Sky Broadcasting Group plc**
**Grant Way, Isleworth, Middlesex, TW7 5QD, England**
**Telephone +44 20 7705 3000**
**Facsimile +44 20 7705 3008**
*(Name, telephone, e-mail and/or facsimile number and address of Company Contact Person)*

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

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

(1) The listing of Registrant's ordinary shares on the New York Stock Exchange is for technical purposes only and without trading privileges.

Securities registered or to be registered pursuant to Section 12(g) of the Act: NONE
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: NONE
Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock at the close of the period covered by the annual report.
Ordinary shares (nominal value 50p per share) __________ 1,752,842,599

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

Yes No

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

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

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

## Forward looking statements

This document contains certain forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations and business, and our strategy, plans and objectives. These statements include, without limitation, those that express forecasts, expectations and projections, such as forecasts, expectations and projections with respect to the potential for growth of free-to-air and pay television, fixed line telephony and Direct-to-Home

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

These statements (and all other forward-looking statements contained in this document) are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or implied or forecast in the forward-looking statements. These factors include, but are not limited to, the fact that we operate in a highly competitive environment, the effects of laws and government regulation upon our activities, our reliance on technology,

which is subject to risk, change and development, failure of key suppliers, our ability to continue to obtain exclusive rights to movies, sports events and other programming content, risks inherent in the implementation of large-scale capital expenditure projects, our ability to continue to communicate and market our services effectively, and the risks associated with our operation of digital television transmission in the United Kingdom ( UK ) and Republic of Ireland ( Ireland ).

Information on the significant risks and uncertainties associated with our business is described in Directors report – review of the business – Risk factors in this document. All forward looking statements in this document are based on information known to us on the date hereof. Except as required by law, we undertake no obligation publicly to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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# Chairman s statement

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

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

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

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

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

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

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

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

James Murdoch
Chairman

30 July 2008

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# Directors report review of the business

## Chief Executive Officer s statement

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

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

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

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

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

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

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

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

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

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

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

Content is our life-blood at Sky. We are continuing to strengthen our offering through investment in distinctive programming that makes us stand out and encourages people to join Sky. Alongside our successful partnerships with third-party broadcasters, we continue to develop our wholly-owned channels in sports, news, movies, entertainment and the arts. For example, we ve recently renewed our agreement for coverage of the UEFA Champions League and will offer more live games than ever before. Sky One, our flagship entertainment channel, goes from strength to strength with outstanding original commissions such as Ross Kemp in Afghanistan, The Colour of Magic, Don t Forget The Lyrics and Gladiators, alongside compelling US drama like Lost, 24 and Prison Break. Sky News continues to set standards for coverage of breaking news, winning the Royal Television Society s News Channel of the Year Award for the sixth time in the last seven years, and we are further broadening Sky s appeal through our content offering with Sky Arts, the UK s only channel dedicated to all areas of the arts.

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

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

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

We have already reduced our direct carbon footprint by 27%, and have worked with our customers to reduce their energy consumption. One year after launch, our auto standby feature a world first has been downloaded to more than four million Sky+ and Sky+ HD boxes, saving our customers £12 million on their electricity bills as well as 52,000 tonnes of $CO_2$. To help make the arts accessible and appreciated by all, we have partnered with a number of leading arts organisations and events across the UK, including English National Opera (ENO), English National Ballet and the Hay Festival. Our work with ENO has allowed thousands of Sky customers to attend performances for just £5, and hundreds of local schoolchildren have been offered educational workshops. Through our recently announced partnership with British Cycling, we want to help one of Britain s most successful Olympic teams achieve even more success, develop the next generation of talent and inspire millions of people to get on their bikes. Our Sky Sports Living for Sport programme now in its fifth year has helped more than 17,000 students at risk of opting out of school life to reach their full potential. We are proud of the contribution we ve made in each of these areas and are committed to building on these foundations in the years ahead.

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

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

**Jeremy Darroch**
Chief Executive Officer

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# The business, its objectives and its strategy

## Introduction

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

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

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

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

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

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

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

The Company, a public company limited by shares and domiciled in the UK, operates under the laws of England and Wales. It was incorporated in England and Wales on 25 April 1988. Our principal executive offices are located at Grant Way, Isleworth, Middlesex, TW7 5QD, England. Tel: +44 (0)20 7705 3000. A list of our significant investments is set out in note 31 to the consolidated financial statements.

### Programming

We provide subscribers with a broad range of programming options. Programming is an important factor in generating and maintaining subscriptions to the Sky Channels. With respect to the channels we own and operate, we incur significant expense to acquire exclusive UK and Ireland television rights to films, exclusive UK and Ireland television rights to broadcast certain sports events live and television rights to other general entertainment programming. We also produce and commission original entertainment programming and have acquired the rights to market the television services of third parties to DTH subscribers.

Currently, we own, operate, distribute and retail 25 Sky Channels via our DTH service (or 28 including multiplex versions of the Sky Channels, but excluding simulcast channels and the business channels SkyVenue and the Pub Channel). A multiplex of a channel is a time-shifted version of that channel, a version that is manifestly linked by theme to the principal channel or a version where the content is transmitted at different times. We also simulcast some of the Sky Channels or programming from some of the Sky Channels in high definition. A simulcast channel is a simultaneous transmission of programmes on other channels. We currently retail to our DTH subscribers 149 Sky Distributed Channels (including multiplex versions of certain channels) (the Sky Distributed Channels ). We do not own the Sky Distributed Channels, although we have an equity interest in certain of them. In addition to the Sky Distributed Channels, we currently retail to our DTH subscribers the digital audio services Music Choice and Music Choice Extra, as well as the Sky Box Office service (a pay-per-view service offering movies, sporting events and concerts).

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

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

* Disney Cinemagic also available as a bonus to subscribers of both Movies Mix packages.
** On 28 July 2008, the Military History channel launched as part of the Knowledge Mix.

In addition the HD service includes six third party Channels.

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# Directors report review of the business
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## The business, its objectives and its strategy
continued

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

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

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

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

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

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

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

According to surveys produced by BARB, as of 30 June 2008, an estimated 34% of the estimated 25.7 million television homes in the UK were equipped with digital satellite reception equipment; 13% subscribed to a cable television or SMATV package (single mast antenna television which is primarily for buildings that receive programming by means of a single satellite antenna connected to a head end and which distributes

television signals to individual units in the building by cable); and 48% had digital terrestrial television. The percentage figures given for each means of delivery include homes which receive television services via more than one of such delivery means. According to BARB estimates, during the 52 weeks ended 30 June 2008, the Sky Channels (including Sky Box Office and Sky Box Office Events but excluding SkyPoker.com and Sky Vegas) accounted for an estimated 16.3% of viewing of all satellite and cable channels (excluding BBC1, BBC2, ITV1, Channel 4 (and S4C, not Channel 4, in Wales only) and five (collectively the traditionally analogue terrestrial channels )) in homes that are able to receive those channels in the UK ( Multi-Channel Homes ) (or an overall 7% viewing share of all channels (including the traditionally analogue terrestrial channels) available within Multi-Channel Homes during the same period).

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

We hold equity interests in ventures that own 17 (not including time-shifted multiplex versions) of the Sky Distributed Channels (including certain Premium Sky Distributed Channels) which are operated and distributed in the UK (for the purposes of this filing, any reference to the UK in relation to the distribution of the Sky Channels and Sky Distributed Channels includes the Isle of Man and the Channel Islands) namely Attheraces, Nickelodeon, Nick Jr., Nick Jr. 2, Nicktoons, National Geographic Channel, National Geographic HD, Nat Geo Wild, Chelsea TV, MUTV, Paramount Comedy, Paramount Comedy 2, The History Channel, Military History, The History Channel HD, The Biography Channel and Crime and Investigation Network. We also have a 33.33% equity interest in the venture operating the Sky News Australia Channel, which is based in Australia.

## Premium channels

### Sky Premium Channels

*Sky Movies channels*

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

Pack 1

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

Pack 2

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

Sky Movies Comedy, Family, Classics, Modern Greats, Action/Thriller and Drama broadcast 24-hours per day, seven days a week. Sky Movies Sci-Fi/Horror broadcasts from 8am 5am, seven days a week and Sky Movies Indie broadcasts from 9am 5am seven days a week. The channels principally broadcast the output of recent release movies, made-for-television movies and certain library movies (in respect of which we are typically granted exclusive UK and Ireland rights to broadcast during the relevant pay television window) by major Hollywood and independent US and European licensors.

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

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

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

*Sky Sports channels*

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

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

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

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

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

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

Scotland, Wales, Ireland and British and Irish Lions and exclusive rights to domestic competitions in those territories, including the Super 14 Tournament and Currie Cup until December 2010; (viii) exclusive live rights to the Ryder Cup and the PGA European Tour until 2012; and (ix) exclusive live rights to the Hickstead Royal International Horse Show until 2010. We also purchase rights to broadcast a wide range of additional sports programming on both an ad hoc and longer term basis.

### Premium subscription channels retailed by Sky

#### Disney Cinemagic

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

#### Chelsea TV

Chelsea Digital Media Limited (a company in which we own a 35% equity interest), operates a digital subscription pay television channel dedicated to showing certain programming relating to Chelsea Football Club ( Chelsea TV ). We offer Chelsea TV to our DTH subscribers as a stand alone premium channel.

#### MUTV

We are party to a joint venture, MUTV Limited, with Manchester United PLC. We own a 33.33% equity interest in MUTV Limited which operates a digital subscription pay television channel dedicated to showing certain programming relating to Manchester United Football Club ( MUTV ). We offer MUTV to our DTH subscribers as a stand alone premium channel.

#### Music Choice Extra

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

### Basic Channels

#### Sky Basic Channels

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

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

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

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

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

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

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

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

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

### Basic Sky Distributed Channels

Our agreements with the owners of the Sky Distributed Channels typically grant us the exclusive right to offer these channels to residential DTH subscribers in the UK and Ireland.

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

### Pay-per-view

Our Sky Box Office service currently offers our DTH subscribers over 50 screens of television premieres of movies and occasional live sports and other special events on a pay-per-view basis. We have acquired certain exclusive DTH rights from Hollywood and independent distributors, which enable us to show their movies on Sky Box Office. Sky Box Office HD offers at least 10 movies each week in high definition on a pay-per-view basis. We also offer seven screens of adult movies, between 10.00pm and 5.30am, to our DTH subscribers via our 18 Plus Movies service.

### Sky Anytime on TV

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

### **Distribution**

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

As at 30 June

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

(1) Each of the above figures includes homes that receive Sky Channels via more than one means of distribution.
(2) The number of cable homes is reported to us by the cable operators.
(3) The DTT homes number consists of the Office of Communications ( Ofcom ) estimate of the number of homes where DTT is the only platform. The number of DTT homes for all periods disclosed above is based on Ofcom s Digital Television Update published quarterly in arrears.
(4) Latest data available is at 31 March 2008 with an estimated number of DTT homes of over 9.2 million.

### DTH distribution

As at June 2008, the total number of DTH subscribers in the UK and Ireland was 8,980,000, representing a net increase of 398,000 subscribers in the fiscal year. DTH churn in total was 10.4% in fiscal 2008 (2007: 12.4%) . We define DTH churn as the number of DTH subscribers over a given period who terminate their subscription in its entirety, net of former subscribers who reinstate their subscription in that period (where such reinstatement is within a twelve month period of the termination of their original subscription). In fiscal 2008, we derived £3,769 million (76%) of our revenue from DTH subscription revenue (2007: £3,406 million (75%)).

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

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

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

We also offer a number of our services, including Sky HD, to commercial DTH subscribers in the UK and Ireland under a range of contracts. The types of contract, and the channels, which are available to any particular commercial subscriber depend primarily upon the type of business premises within which such subscribers wish to show our services. Our commercial DTH subscribers include offices, retail outlets, hotels, pubs and clubs. Each such operator with a SMATV system is considered to be a single commercial DTH subscriber regardless of the number of points (e.g. rooms in a hotel) within the premises the television signal is distributed to. As at 30 June 2008, there were approximately 44,695 subscribers to our commercial DTH services in the UK and Ireland (including approximately 5,078 commercial DTH subscribers operating a SMATV system).

The majority of our UK DTH commercial customers are subscribers under our pubs and clubs subscription agreement. Under that agreement, the subscription prices range from £89 to £3,001 per month (exclusive of VAT). In Ireland, prices to pubs and clubs subscribers range from €278 to €686 per month (exclusive of VAT).

### Digital satellite reception equipment

*UK*

In order to receive our DTH service, subscribers are required to have a digital satellite system which includes a satellite dish and LNB (low noise block converter), a digital satellite receiver ( set-top box ), a smart card (see Technology and Infrastructure below) and a remote control. We have worked with a number of manufacturers and

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

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

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

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

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

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

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

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

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

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

*Ireland*

In Ireland, both satellite equipment and subscriptions to our DTH services are offered directly by us and through a large number of Irish retailers. Some of the channels offered in Ireland differ from those offered in the UK.

## Sky Active

We offer our viewers enhanced and interactive services. We offer enhanced broadcast applications behind a number of Sky Channels, including Sky Movies Active (behind our movie channels), Sky Sports Active (behind our sports channels), Sky News Active (behind Sky News) and the interactive betting service available behind SkyPoker.com and Sky Vegas. We offer interactive services which can be accessed whilst the programming on the channel to which the interactive service relates stays in view.

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

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

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

## Sky Bet

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

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

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### Digital subscriber line ( DSL ) and other fixed line distribution
**Sky Player**

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

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

**Sky By Wire**

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

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

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

**Easynet**

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

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

### Sky Broadband

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

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

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

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

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

### Sky Talk

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

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

### Online

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

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

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

### Mobile networks

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

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

In addition, customers on Vodafone, Orange or T-mobile mobile networks in the UK or the Vodafone network in Ireland and with a compatible mobile handset can subscribe to Sky Mobile TV . Sky Mobile TV offers over 25 channels streamed direct to the subscriber s mobile phone. Depending on the customer s mobile network they can subscribe to up to four packages which cost from £3 to £5 per month (or on a daily or weekly basis in Ireland).

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

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

### Cable distribution

#### UK

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

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

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

Cable operators pay us a monthly per subscriber fee per channel in respect of their subscribers to the Sky Basic Channels (other than Virgin Media who no longer carry the Sky Basic Channels) and a monthly per subscriber fee per channel package for the Sky Premium Channels. Cable operators are able to offer their subscribers any choice or combination of the Sky Premium Channels pursuant to the rate card terms on which we supply such channels. Where applicable, the Sky Basic Channels are not included in our current wholesale rate card and we negotiate separate commercial arrangements with each cable operator for the carriage of these channels.

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

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

### Ireland

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

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

In Ireland, cable subscriber fees for the Sky Premium Channels are charged on a per subscriber per channel package basis. The level of prices charged to cable operators for most Sky Channels is lower than in the UK.

### DTT distribution

We broadcast versions of three of our channels, Sky News, Sky Sports News and Sky Three, unencrypted free-to-air via DTT in the UK. These channels are broadcast on a DTT multiplex for which the licence is held by National Grid Wireless (which owns and operates shared wireless communications and broadcast infrastructure).

The channels broadcast via DTT by us, together with a number of other channels broadcast free-to-air via DTT by other broadcasters, are marketed to consumers under the generic brand Freeview . We have announced that we are developing plans to replace these three channels with new pay TV channels on the DTT platform. An application to Ofcom to amend our Digital Television programme services licence ( DPS ) to enable us to launch these new pay TV channels on the DTT platform was submitted in April 2007. Ofcom has announced that it will publish a consultation document on the Group s pay DTT proposal by the end of summer 2008 (see Government regulation Broadcasting Act licences below).

### Free-to-view satellite proposition

We offer purchasers a freesat proposition with access to over 270 free-to-view television and radio channels (including regional variants) and interactive services, without a monthly subscription fee. Consumers can purchase a package of digital satellite reception equipment, including a digital satellite smart card and standard installation, for £150. The free-to-view channels on DTH include Sky News, and a range of television and radio channels provided by, among others, the BBC and ITV. Access to the encrypted signals of Sky Three, Channel 4 and five is available as a result of the provision of a digital satellite viewing card, which we provide as part of the package. The purchasers of this proposition are not obliged to subscribe to our pay television service; however, the proposition offers an easy upgrade path to our DTH pay television service.

### Emerging forms of distribution

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

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

## Seasonality

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

## Marketing

The principal types of marketing used by us to promote our products and services are press (including both national and regional newspapers and magazines), media inserts, door drops, direct mailings, outdoor activity (such as billboards and bus backs), on-air advertising on both national and regional radio and television channels (on both promotional and commercial airtime), outbound calling, on-line advertising on both third party websites and on sky.com, advertising in our customer magazine, point of sale advertising in retail outlets which sell our products and services and Sky retail stores.

## Advertising

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

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

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

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

### Sponsorship

In fiscal 2008, we derived £30 million of revenue from sponsorship (2007: £34 million), which is included in advertising sales revenue.

We acquire programme sponsors for the Sky Channels and work alongside the sales teams of partner channels (such as National Geographic Channel, Discovery Channel, The History Channel and Hallmark) to help secure broadcast sponsors for their channels.

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

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

### Competition

Introduction

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

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

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

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

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

Competition from other video distributors and video distribution channels

**Pay services**

*Cable Services*

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

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

There are areas in the UK and Ireland where it may not be economically feasible to offer cable television services, including some rural areas. There are also certain areas in the UK and Ireland, such as conservation areas, where, due to planning and local

regulations, DTH satellite equipment may not be installed. According to Ofcom, cable networks currently cover approximately 45% of UK homes, whilst, according to the Commission for Communications Regulation ( ComReg ) (the national communications regulatory authority in Ireland), cable and MMDS services cover nearly 80% of Irish homes. Approximately 13% of UK homes currently subscribe to a cable television service, whilst approximately 51% of Irish homes currently subscribe to cable or MMDS television services.

In January 2005, ntl and Telewest launched a VOD service in the UK. This VOD service has now been rolled out to all of Virgin Media s digital TV subscribers. The Virgin Media VOD services include movie and television programme content and provide viewers with pause and rewind functionality. Digital cable subscribers to whom the services are available do not need to upgrade their equipment to receive the services though some VOD services are only available for an additional fee depending on the basic package subscribed to. As an additional service, Virgin Media also offers V+ , a HD PVR set-top box which enables its customers to record programming and watch HD content on the Virgin Media platform.

*IPTV services*

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

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

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

*Programming available over the internet*

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

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

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

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

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

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

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

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

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

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

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

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

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

*DTT*

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

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

*Other DTH pay TV providers*

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

*DVDs*

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

**Free-to-air services**

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

*Analogue television services*

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

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

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

*Freeview*

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

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

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

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

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

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

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

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

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

*Free-to-view satellite propositions*

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

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

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

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

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

### Competition from broadband and telephony providers

**Broadband and telephony services**

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

*Broadband*

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

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

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

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

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

*Fixed telephony*

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

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

*Mobile telephony*

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

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

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

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*Competition from Triple Play / Quad Play providers*

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

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

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

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

*Competition from Dual Play providers*

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

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

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

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

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

### Competition from other broadcasters

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

In both the UK and Ireland, the television channels and other audio-visual service providers with the largest audience shares are traditionally analogue terrestrial channels, which are broadcast free-to-air. In the UK, these channels are BBC1, BBC2, ITV1, Channel 4 and five, while in Ireland these are RTE1 and Network 2, the Irish language channel TG4, and the commercial channel TV3. In the UK, as well as being available via analogue terrestrial television, the five traditionally analogue terrestrial channels are also available via DTH, cable, DTT and DSL, and, in the case of DTH and DTT, on a free-to-air basis.

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

4 and five in those homes, although the Sky Channels combined viewing share is still less than that of ITV1 in these homes. Based upon BARB surveys for the 52 weeks ended 30 June 2008, the viewing shares in UK Multi-Channel Homes of the traditionally analogue terrestrial channels and the combined Sky Channels were, respectively, BBC1 20.1%, BBC2 7%, ITV1 17.8%, Channel 4 6.9%, five 4.6%, and the Sky Channels 7% (of which Sky One accounted for 14% of the Sky Channels viewing share (and had an individual viewing share of 1%)). The remaining 36% of viewing in UK Multi-Channel Homes was of other (non-Sky) satellite, cable and DTT channels.

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

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

### Competition from other sellers of advertising air time

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

Based upon the latest BARB survey estimates, ITV1 and Channel 4 were available to approximately 25.49 and 25.24 million television homes, respectively, in the UK (both digital and analogue), with approximately 95% of the estimated 25.49 million television homes in the UK receiving an acceptable terrestrial analogue signal for five. In addition, according to BARB survey estimates, as at June 2008, approximately 21.7 million UK homes have access to satellite, cable, or digital terrestrial television. Both ITV1 and Channel 4 have a significantly greater overall UK television viewing share than any individual Sky Channel. Partly as a result of the ability of ITV1 and Channel 4 to reach almost all UK television homes, these channels are able to generate greater advertising revenue than we do. We also compete with the Sky Distributed Channels and all other commercial channels for television advertising sales.

## Technology and infrastructure

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

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

The EPG in the set-top box has been and continues to be developed for us by NDS Limited ( NDS ) uses an operating system which we license from OpenTV, Inc. ( OpenTV ). The OpenTV operating system provides a virtual machine interface which enables applications to be authored once, yet still be capable of running on all our different types of DTH set-top boxes once the application is downloaded to the set-top

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

### Encryption of digital services

VideoGuard is a conditional access technology which can be used to encrypt and decrypt digital television and audio services. We use it to control DTH viewers access to encrypted satellite non-subscription channels and encrypted digital pay and pay-per-view television and audio channels broadcast on digital satellite for reception in the UK and/or Ireland.

We use the VideoGuard technology and distribute smart cards in the UK and Ireland under an agreement with NDS which expires in 2010, but is renewable, at our option, for a further three years. NDS supplies smart cards and undertakes ongoing security development and other support services in return for the payment of fees by us.

In conjunction with NDS, we maintain a policy of refining and updating the VideoGuard technology in order to restrict unauthorised DTH reception of our services. We take appropriate measures to counter unauthorised reception, including the implementation of over-the-air countermeasures altering authorised smart cards in a manner which then renders counterfeit smart cards obsolete and seeking legal remedies, both civil and criminal, reasonably available to us. We also periodically replace smart cards in circulation with smart cards containing progressively more sophisticated technology. Such replacement has rendered useless all smart cards then in circulation, whether genuine or counterfeit. The first periodic replacement of digital smart cards since our digital launch in October 1998 was successfully completed in November 2003.

We are actively working with cable operators in the UK to investigate the use of any cable piracy devices. We believe that we have suffered a loss of wholesale cable revenue as a result of the availability of cable piracy devices (in relation to both analogue and digital cable television services). We are unable to quantify this loss, including whether or not such loss is material. We have not (to date) invoiced any cable operator in respect of such lost cable revenue and therefore, such lost revenue has not been recognised within our consolidated financial statements.

We distribute our channels to cable operators via satellite. To enable reception of the satellite signal, a smart card is located at the site of the cable operator s feed into its cable transmission system, permitting decryption of the signal, which the operator in turn distributes to those of its subscribers (often re-encrypted) who are authorised and equipped to receive the service.

### Encryption of channels retailed by third parties

Any potential DTH broadcaster wishing to operate and independently retail an encrypted television service within the UK and Ireland must either acquire an alternative encryption and conditional access technology from someone other than us, and build its own decoder base capable of receiving transmissions encrypted using that technology, or, in respect of digital services, contract with us for conditional access services in respect of access to the installed VideoGuard decoder base.

In addition to providing broadcast conditional access services, both for our own DTH offerings and those of third parties, we provide digital access control services for interactive services produced by us and others, including using a telephone return path to carry out transactions between suppliers and viewers. These broadcast conditional access and access control services are regulated by Ofcom. See Government regulation Broadcasting and telecommunications regulation European Union Electronic Communications Directives .

### Satellites

We contract with SES Astra for the majority of capacity on the satellite transponders that we use for digital transmissions for reception by both DTH viewers and cable operators. SES Astra is 100% owned by SES, a Luxembourg company listed on the Luxembourg stock exchange and Euronext Paris. We have also contracted, via an agreement with BT, for capacity on four transponders on the Eurobird satellite, which is owned and operated by Eutelsat.

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

In addition to using some of the transponder capacity that we have contracted to broadcast Sky Channels, some of our transponder capacity (and in some cases all of the capacity on a particular transponder) is sub-contracted to third parties for the transmission of other channels or services, including certain of the Sky Distributed Channels.

We have been designated a non pre-emptible customer under each of our transponder agreements. This means that, in the event of satellite or transponder malfunction, our use of these transponders cannot be suspended or terminated by SES Astra or Eutelsat in favour of another broadcaster with pre-emption rights in preference to us. In addition, in the event of satellite or transponder malfunction, we have arrangements in place with SES Astra pursuant to which back-up capacity may be available for some of our transponder capacity based on an agreed satellite back-up plan.

We have also put in place disaster recovery plans in the event that we experience any significant disruption of our transponder capacity. To date, we have not experienced any such significant disruption. However, the operation of both the Astra and Eutelsat satellites is outside our control and a disruption of transmissions could have a material adverse effect on our business, depending on the number of transponders affected and the duration of the disruption.

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

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

### Capital expenditure programme

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

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

As is common with capital expenditure projects of this scale, there are risks that they may not be implemented as envisaged; or that they may not be completed either within the proposed timescale or budget; or that the anticipated business benefits of the projects may not be fully achieved.

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

Our customer management centres are based in Scotland. The centres functions include the handling of orders from subscribers, the establishing and maintaining of customer accounts, invoicing and revenue collection, telemarketing and customer service. These functions permit the centres to play a key role in both customer acquisition and customer retention. We provide customer management services for the Sky Channels and the Sky Distributed Channels. We also deliver customer services for both our own, and certain third party, interactive television services, our telephony services and our video-streaming services.

The customer management centres also provide the distribution of ordered customer installations into Sky In-Home Service Limited which then provides nationwide installation and servicing of digital satellite reception equipment directly in customer homes. Sky In-Home Service Limited also provides an aftercare service to the DTH subscriber base in relation to digital satellite reception equipment which is both in, and out of, warranty.

During the course of the last 8 fiscal years, we have invested more than £280 million in our customer management centres and systems. This expenditure has been focused principally on completely replacing the centres existing customer management and billing systems with new applications and also on improving the existing physical infrastructure of the centres. The replacement customer management and billing systems are now functioning in line with expectations.

### Playout and uplink facilities

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

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

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

## Minority equity investments

### ITV

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

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

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

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

## Significant agreements

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

### FAPL

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

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

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

### RCF

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

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

### News Corporation voting agreement

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

### EMTN bond issue

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

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

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

### UK broadcasting licences

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

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

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

### 2008 bond issue

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

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

### **Material agreements**

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

### Bond issue

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

## Corporate responsibility

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

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

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

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

### **Customers**

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

### Environment

The group has maintained its status (achieved in 2006) as a Carbon Neutral media company the first in the world, and one of the first FTSE 100 companies to achieve this goal. The Group continues to set targets for reducing its energy consumption, carbon dioxide ($CO_2$) emissions and waste. Progress against these targets is documented in the Group s annual Corporate Responsibility Review (now called The Bigger Picture Review).

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

### Arts and Sports

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

## People

### Organisation

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

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

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

### Talent management

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

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

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

### Effectiveness

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

### Health, Safety and Wellbeing

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

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

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

### Reward and benefits

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

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

### Involvement and Communication

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

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

### Recognition

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

## Risk factors

This section describes the significant risk factors affecting our business. These should be read in conjunction with our long-term operating targets, which are set out in Financial Review Introduction Overview and Recent Developments . These risks could have a material adverse effect on any or all of our business, financial condition, prospects, liquidity or results of operations. Additional risks and uncertainties of which we are not aware or which we currently believe are immaterial may also adversely affect our business, financial condition, prospects, liquidity or results of operations.

***The Group s business is heavily regulated and changes in regulations, changes in interpretation of existing regulations or failure to obtain required regulatory approvals or licences could adversely affect the Group s ability to operate or compete effectively.***

The Group is subject to regulation primarily under UK and European Union legislation and it is currently and may be in the future subject to proceedings, and/or investigation and enquiries from regulatory authorities, from time to time. The regimes which affect the Group s business include broadcasting, telecommunications, competition (antitrust), gambling and taxation laws and regulations. Relevant authorities may introduce additional or new regulations applicable to the Group s business. The Group s business and business prospects could be adversely affected by the introduction of new laws, policies or regulations or changes in the interpretation or application of existing laws, policies and regulations. Changes in regulations relating to one or more of licensing requirements, access requirements, programming transmission and spectrum specifications, consumer protection, taxation, or other aspects of the Group s business, or that of any of the Group s competitors, could have a material adverse effect on the Group s business and/or the results of its operations.

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

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

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

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

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

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# Directors report review of the business
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## Risk factors
continued

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

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

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

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

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

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

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

for its products and to attract and retain customers through a wide range of marketing activities. The future demand and speed of take up of the Group s services will also depend upon the Group s ability to package its content attractively. In addition, the Group operates in a geographic region which has experienced sustained economic growth for a number of years. The effect of a possible slowdown in the rate of economic growth and/or a decline in consumer confidence on the Group s ability to continue to attract and retain subscribers is uncertain. Therefore, the Group cannot be certain that the current or future marketing and other activities it undertakes will succeed in generating sufficient demand to achieve its operating targets.

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

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

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

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

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

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

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

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

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

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

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

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

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

Direct DTH access to the Group s services is restricted through a combination of physical and logical access controls, including smart cards which the Group provides to its individual DTH subscribers. Unauthorised viewing and use of content may be accomplished by counterfeiting the smart cards or otherwise overcoming their security features. A significant increase in the incidence of signal piracy could require the replacement of smart cards sooner than otherwise planned. Although the Group works with its technology suppliers to ensure that its encryption and other protection technology is as resilient to hacking as possible, there can be no assurance that it will not be compromised in the future. The Group also relies upon the encryption or equivalent technologies employed by the cable and other platform operators for the protection of access to the services which the Group makes available to them. Failure of encryption and other protection technology could impact the Group s revenue from those operators and from its own customers.

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

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

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

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

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

***The Group, in common with other service providers that include third party services which the Group retails, relies on intellectual property and proprietary rights, including in respect of programming content, which may not be adequately protected under current laws or which may be subject to unauthorised use.***

The Group s services largely comprise content in which it owns, or has licensed, the intellectual property rights, delivered through a variety of media, including broadcast programming, interactive television services, and the internet. The Group relies on trademark, copyright and other intellectual property laws to establish and protect its rights over this content. However, the Group cannot be certain that its rights will not be challenged, invalidated or circumvented or that it will successfully renew its rights. Third parties may be able to copy, infringe or otherwise profit from the Group s rights or content which it owns or licenses, without the Group s, or the rights holder s, authorisation. These unauthorised activities may be more easily facilitated by the internet. In addition, the lack of internet-specific legislation relating to trademark and copyright protection creates an additional challenge for the Group in protecting its rights relating to its online businesses and other digital technology rights.

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

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

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

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

## Government regulation

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

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

### Electronic Communications Regulation

**EC law**

**The Electronic Communications Directives**

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

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

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

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

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

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

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

In November 2005, the European Commission commenced a review of the functioning of the Electronic Communications Directives. The European Commission published draft legislative proposals for modifying the existing framework in November 2007, with a view to the implementation of a revised framework within the Member States in 2011. The main areas where the European Commission has indicated that changes are needed to the existing regulatory framework are:

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

**UK law**

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

## General Conditions of Entitlement

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

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

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

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

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

## Access-related conditions

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

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*Conditional Access Services Conditions*

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

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

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

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

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

We are required under a continuation notice to provide EPG services to other broadcasters on fair, reasonable and non-discriminatory terms and not to favour related companies. Ofcom has consulted on replacing this continuation notice with authorisation conditions under the Communications Act. The deadline for comments on the consultation document having been in March 2004. Ofcom has yet to replace this continuation notice following this consultation and therefore the continuation notice still applies. It is not, however, envisaged that the manner of regulation of EPGs will change significantly.

Our subsidiary, SSSL, is currently designated a regulated supplier in respect of its activities in providing access control services to third parties on our DTH platform and it is, among other things, subject to the obligation to provide such access control services on fair, reasonable and non-discriminatory terms and not to favour related companies. This designation, set out in a continuation notice, will remain in place for as long as SSSL is considered to have SMP. In November 2003, Oftel commenced a review under the Communications Act to determine whether any provider of access control services has (or, in the case of SSSL, continues to have) SMP. The deadline for comments on the consultation document was in January 2004. Ofcom has yet to publish its conclusions to this consultation; in the meantime, SSSL continues to be subject to the regulatory regime under this continuation notice.

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

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

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

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

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

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

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

### Ofcom Review of Wholesale Digital Television Broadcasting Platforms

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

### SMP Conditions

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

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

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

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

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

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

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

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

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

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

*Dispute resolution*

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

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

**Transmission standards**

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

broadcasters of television services. These requirements on technical standards have been implemented in the UK by The Advanced Television Services Regulations 2003 and are administered by Ofcom.

### Recognised Spectrum Access

Ofcom has introduced a system for the management of spectrum under the Communications Act, which is intended to enhance the efficiency of spectrum use through liberalisation of use and trading in spectrum, whilst protecting the quality of spectrum. This regime may include a voluntary system of Recognised Spectrum Access ( RSA ), which would afford some protection from interference for satellite downlinks and would include a charging mechanism for the use of relevant spectrum. Ofcom has announced that it intends to consult the public on the application of RSA to satellite downlinks, for which no date is currently set.

**Irish law**

We are currently not regulated by the Irish national communications regulatory authority, ComReg. In June 2003, ComReg clarified that it would not, for the time being, seek to regulate the provision of access to broadcasting networks (or the delivery of content services to end users) in Ireland under the Electronic Communications Directives.

### Broadcasting Regulation

**EC law**

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

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

The TWF Directive includes, amongst other things:

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

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

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

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

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

## Broadcasting Act licences

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

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

We and our broadcasting joint ventures each currently hold a Television Licensable Content Services ( TLCS ) licence for each of our respective channels and for a number of other broadcasting services, including our EPG on digital satellite. A TLCS licence permits a channel to be broadcast on cable, DSL and satellite, but does not confer on a TLCS licensee the right to use any specific satellite, transponder or frequency to deliver the service. TLCS licences are granted for an indefinite duration (for so long as the licence remains in force) and new licences are issued by Ofcom if certain minimum objective criteria are met.

We also hold a Digital Television Programme Services ( DPS ) licence, which is required for the distribution of our channels via DTT, and a Digital Television Additional Services ( DAS ) licence for the distribution of other services (including Sky Text) on DTT. In February 2007, the Group announced that it is developing plans for the launch of a subscription television service on DTT. This service is to be retailed under the Picnic brand. An application to amend the Group s Digital Television Programme Services licence was submitted to Ofcom in April 2007. In May 2008 Ofcom announced that it would publish a consultation document on the pay TV industry (see below) and its assessment of the Group s pay DTT proposal by the end of summer 2008.

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

- *Broadcasting Code:* this includes requirements relating to, among other things, the impartiality and accuracy of news programming, the protection from harm and offence and the portrayal of sex and violence;
- *Rules on the amount and distribution of advertising* (to be replaced on 1 September with the Code on the Scheduling of Television Advertising);
- *Cross Promotions Code:* this is designed to ensure that cross-promotions on television are distinct from advertising and are limited to informing viewers of services likely to be of interest to them as viewers. The Code allows broadcasters to promote broadcasting-related services in promotional airtime subject to the requirement that the promotion is provided for no consideration. No consideration will be presumed to have passed where the promoting channel has a shareholding of 30% or more in the promoted channel (or vice versa). The Code also contains additional rules, applicable only to ITV1, Channel 4 and five, requiring all references to digital retail television services or digital television broadcasting platforms to be on an equal and impartial basis;
- *Code on Sports and other Listed Events:* the Broadcasting Act 1996 (as amended by the Communications Act) provides that no UK broadcaster may undertake the exclusive live broadcast of certain sporting or other events of national interest designated by the Secretary of State from time to time ( Listed Events ), whether on a free-to-air basis or subscription basis, without the prior consent of Ofcom. The effect of these rules is that many leading sports events cannot be shown exclusively live on pay television in the UK. The Code on Sports and other Listed Events was drafted by the Independent Television Commission ( ITC ), Ofcom s predecessor, and sets out how the ITC (and now Ofcom) will apply the rules on Listed Events. In September 2005, the Secretary of State for Culture, Media and Sport indicated that a review of listed events is likely to take place around 2008/09;
- *Code on Television Access Services:* the Communications Act prescribes certain annual targets for television access services (subtitling, audio description and signing) that broadcasters licensed channels must meet. The Code on Television Access Services sets out Ofcom s guidance on ensuring compliance with these requirements. The Code requires broadcasters to provide quarterly returns on their compliance. In 2007, all of Sky s channels, except Sky Sports 1 exceeded their relevant target. Sky is taking measures to address the shortfall on

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

- Code on Electronic Programme Guides: this requires all providers of EPGs licensed under the Broadcasting Acts to give public service channels (which currently comprise all BBC television channels, ITV1, Channel 4, five, and S4C Digital and the digital public teletext service) such degree of prominence as Ofcom considers appropriate. The Code also requires that undue prominence is not given on an EPG to channels connected to the EPG operator, that an objective policy for allocating listings on the EPG is maintained and published; and that there is no requirement for exclusivity on an EPG for any service.

As noted above, the TWF Directive includes rules governing, amongst other things, the proportion of transmission time that must be reserved for European works and for European works created by producers who are independent of broadcasters. Specifically, the TWF Directive requires each EU Member State to ensure where practicable and by appropriate means that broadcasters falling under its jurisdiction reserve (a) a majority of their transmission time for European works and (b) at least 10% of their transmission time or, at the discretion of the Member State, at least 10% of their programming budget for European works created by producers who are independent of broadcasters (in relation to (b), an adequate proportion of such works should be produced within the five years preceding the transmission). The term where practicable and by appropriate means is not defined in the TWF Directive and is left for the interpretation of each Member State. In applying these requirements, broadcast time covering news, games, advertisements, sports events, teletext and teleshopping services is excluded.

A condition requiring licensees to comply with these requirements, where practicable, and having regard to any guidance issued by Ofcom, is contained in all Broadcasting Act licences. On 10 February 2005, Ofcom published guidance in relation to compliance with the requirements in the TWF Directive. Ofcom s guidance requires television broadcasters, who consider that it would not be practicable to meet one or more of the quota requirements, to explain why to Ofcom, which will advise whether any remedial measures are necessary.

A number of our channels currently meet the relevant quota requirements for both European works and European independent productions. Some of our channels only meet one of the relevant quotas and some do not meet either quota. For those channels that do not currently reserve the relevant proportion of relevant transmission time to European works or to European independent productions, it may not be practicable to do so, in which case those channels would still comply with the condition in their Broadcasting Act licences. Ofcom has not advised that any remedial measures are necessary in respect of those channels, nor has it advised that it does not accept that it is not practicable for any of these channels to meet the relevant quota requirements.

### Enforcement of Broadcasting Act licences

If a licensee is found to be in breach of a condition of its Broadcasting Act licence, Ofcom may issue a direction requiring compliance with the relevant licence condition and may impose a fine. Ofcom also has the ultimate power to revoke a broadcaster s Broadcasting Act licence where it is found to be in breach of its licence (if no other remedies are considered appropriate). Any decision by Ofcom finding a licensee to be

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

### Media ownership rules

There are various rules in the Broadcasting Act 1990 (as amended) and the Communications Act governing media ownership. These rules currently preclude us (for as long as the Group is ultimately owned as to over 20% by News Corporation or another member of the same group) from acquiring more than a 20% interest in any Channel 3 licence (which covers the 15 regional ITV1 licences and GMTV).

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

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

### Public Service Broadcasting

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

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

### Co-regulation/self-regulation

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

The Sky Talk and Sky Broadband services are also registered with the telecommunications ombudsman service Otelo, with the consequence that Sky s customers may complain to Otelo about the services they are receiving and Otelo will investigate and decide what action should be taken. As a member of the Ombudsman scheme, Sky has agreed to honour Otelo s decisions.

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

### Irish law

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

A list of designated events in Ireland has been defined under the Irish Broadcasting (Major Events Television Coverage) Act 1999 (Designation of Major Events) Order 2003. The effect of these rules is that many leading sports events cannot be shown exclusively live on pay television in Ireland.

## Betting and gaming

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

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

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

## Competition (anti-trust) law

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

### EC competition rules

#### Anti-competitive agreements

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

#### Abuse of a dominant position

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

#### Enforcement of Articles 81 and 82

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

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

*Investigation of Football Association Premier League agreements*

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

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

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

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

**Mergers**

The European Commission regulates mergers, full function joint ventures (i.e. ones which perform on a lasting basis all the functions of an autonomous economic entity) and the acquisition of holdings which confer decisive influence over an undertaking and which meet certain turnover thresholds specified in the EC Merger Regulation. Such transactions may not be carried out without prior approval of the European Commission. Where the European Commission has jurisdiction to review a transaction under the EC Merger Regulation, national authorities in the EU Member States do not normally have jurisdiction to apply their own competition laws to the same transaction. However, Member States may continue to apply their national laws to mergers, where such laws are directed at securing other public interest objectives (for example, the plurality of the media) and are compatible with EC law.

**Sector inquiries**

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

## UK competition rules

**Anti-competitive agreements**

Section 2(1) of the Competition Act 1998 (the Chapter I prohibition ) prohibits agreements or concerted practices which may affect trade within the UK and which have the object or effect of preventing, restricting or distorting competition within the UK. An agreement will only infringe the Chapter I prohibition if it is likely to have an appreciable effect on competition. Agreements which fall within the scope of the Chapter I prohibition will not be prohibited where they meet specific statutory criteria, that is, where they improve the production or distribution of goods or promote technical or economic progress, provided that consumers receive a fair share of the resulting benefit, competition is not substantially eliminated and the agreement does not contain unnecessary restrictions.

**Abuse of a dominant position**

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

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

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

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

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

*Legal proceedings initiated by Virgin Media group*

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

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

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

### Mergers

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

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

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

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

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# Directors report review of the business
continued

## Government regulation
continued

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

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

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

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

**Market investigations**

Part 4 of the Enterprise Act makes provision for a system of market investigations by the CC. The OFT (or in relation to the communications sector, Ofcom) may make a market investigation reference to the CC where it has reasonable grounds for suspecting that any feature, or combination of features, of a market in the UK for goods or services prevents, restricts, or distorts competition in connection with the supply or acquisition of any goods or services in the UK or part of the UK. Instead of making a reference to the CC, the OFT or Ofcom may accept remedial undertakings from the companies concerned.

Where the OFT (or, in relation to the communications sector, Ofcom) makes a market investigation reference to the CC, the CC will conduct a detailed investigation. The CC may decide that remedial action is required if it finds that there is an adverse effect on competition in a market under investigation. Ultimately, the CC has extensive powers to impose remedial action, including requiring divestments, requiring the licensing of know-how or intellectual property, requiring firms to discontinue/adopt

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

*Ofcom market investigation of pay TV industry*

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

### Irish competition rules

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

## Environmental regulation

We are subject to environmental regulations that require our compliance. Failure to meet the requirements of such regulations may lead to fines being incurred or damage to our brand image.

Regulations based on EU Directives, notably the Waste Electrical and Electronic Equipment Directive ( WEEE Directive ), the Restriction on the use of certain Hazardous Substances in electrical and electronic equipment Directive ( RoHS Directive ) and the Producer Responsibility (Packaging Waste) Regulations (The Packaging Waste Regulations) have placed various obligations upon us. The WEEE Directive and the implementing regulations require producers and distributors of electrical and electronic equipment to finance and enable the recycling and/or disposal of these items in an environmentally sound manner. The RoHS Directive and the implementing regulations necessitate the removal of stipulated hazardous substances from products placed on the market after mid 2005 within set timeframes and the recovery and recycling of electrical products to specified levels. The Packaging Waste Regulations require companies that handle packaging to finance the recovery and recycling of packaging equivalent to the type and volume of packaging that they have handled each year. These three sets of Regulations apply to our purchase and supply of set-top boxes, routers and other related equipment and require registrations to be completed by us, our suppliers and retailers.

Other changes in the categorisation, segregation, storage and removal of certain hazardous wastes require us to register sites that produce such wastes. Without registration, hazardous wastes are not able to be removed from site for disposal. Incorrect disposal may lead to regulatory action.

We track draft environmental directives and regulations to establish their applicability to the business and enable an appropriate response to be planned and implemented. Of note are the forthcoming regulations concerning the safe handling and disposal of batteries as well as the Carbon Reduction Commitment (formerly the Energy Performance Commitment), which was proposed in the Climate Change Bill.

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# Directors report financial review

## Introduction

The following discussion and analysis is based on, and should be read in conjunction with, the consolidated financial statements, including the related notes, included within this Annual Report. The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board and as adopted by the European Union.

### Overview and recent developments

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

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

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

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

DTH churn for the current year was 10.4% (2007: 12.4%) . We define DTH churn as the number of DTH subscribers over a given period that terminate their subscription in its entirety, net of former subscribers who reinstate their subscription in that period (where such reinstatement is within a twelve month period of the termination of their original subscription). The decrease on the prior year reflected the benefit of additional product penetration and the decision made during the prior year not to renew viewing package discounts and to improve price transparency.

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

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

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

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

### Major non-cash transactions

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

### Corporate

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

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

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

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

## Operating results

### Revenue

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

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

Our wholesale subscription revenue, which is revenue derived from the supply of Sky Channels to cable and IPTV platforms, is a function of the number of subscribers on cable operators platforms, the mix of services taken by those subscribers and the rates charged to those cable operators. We are currently a leading supplier of premium pay television programming to cable operators in the UK and Ireland for re-transmission to cable subscribers, although cable operators do not carry all Sky Channels.

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

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# Directors report financial review
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## Introduction
continued

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

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

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

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

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

Programming costs include payment for: (i) licences of television rights from certain US and European film licensors including the results of foreign exchange programme hedges; (ii) the rights to televise certain sporting events; (iii) other programming acquired from third party licensors; (iv) the production and commissioning of original programming; and (v) the rights to retail the Sky Distributed Channels to DTH subscribers. The methods used to amortise programming inventories are described in the Critical Accounting Policies section below.

Under our pay television agreements with the US major movie studios, we generally pay a US dollar-denominated licence fee per movie calculated on a per movie subscriber basis, subject to minimum guarantees, which were exceeded some time ago. During the year, we managed our US dollar/pound sterling exchange risk primarily by the purchase of forward foreign exchange contracts and currency options (collars) for up to five years ahead (see note 23 to the consolidated financial statements).

Under the DTH distribution agreements for the Sky Distributed Channels, we generally pay a monthly fee per subscriber for each channel, the fee in some cases being subject to periodic increases, or we pay a fixed fee or no such fee at all. A number of our distribution agreements are subject to minimum guarantees, which are linked to the proportion of the total number of subscribers receiving specific packages. Our costs for carriage of the Sky Distributed Channels will (where a monthly per subscriber fee is payable) continue to be dependent on changes in the subscriber base, contractual rates and/or the number of channels distributed.

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

Marketing costs include: (i) above-the-line spend (which promotes our brand and range of products and services generally); (ii) below-the-line spend (which relates to the growth and maintenance of the subscriber base, including commissions payable to retailers and other agents for the sale of subscriptions and the costs of our own direct marketing to our existing and potential subscribers); and (iii) the cost of providing and installing digital satellite reception equipment to customers in excess of the relevant amount actually received from customers for such equipment and installation.

Subscriber management costs include customer management costs, supply chain costs and associated depreciation. Customer management costs are those associated with managing new and existing subscribers, including subscriber handling and subscriber bad debt costs. Supply chain costs relate to systems and infrastructure and the installation costs of satellite reception equipment and installation costs of new products purchased by subscribers such as Sky+ HD, Sky+ and Multiroom set-top boxes, including smartcard costs. Customer management costs and supply chain costs are largely dependent on DTH subscriber levels and additions to subscribers in the year.

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

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

## Financial and operating review

### 2008 fiscal year compared to 2007 fiscal year

### Revenue

The Group s revenue can be analysed as follows: