BRITISH SKY BROADCASTING GROUP PLC
Unaudited results for the six months ended 31 December 2010

STRONG FIRST HALF RESULTS; STRATEGY DELIVERING

	Adjusted results			Reported results		
Six months to 31 December	2010	2009	Variance	2010	2009	Variance
Revenue	£3,186m	£2,773m	15%	£3,186m	£2,773m	15%
Operating profit	£520m	£414m	26%	£491m	£414m	19%
EBITDA	£677m	£568m	19%	£648m	£568m	14%
Earnings per share (basic)	20.0p	15.2p	32%	20.3p	15.4p	32%
Dividend per share	8.74p	7.875p	11%	8.74p	7.875p	11%

All comparatives are restated to reflect continuing operations

Record Q2 product growth

- Total net product growth of 1.204 million
  - Surpassed 10 million customer milestone with 140,000 net additions
  - Net additional Q2 product growth up 7% to 1.064 million
- HD reaches 3.5 million customers, up 68% year on year
- Fastest broadband growth in 10 quarters with 204,000 net additions
- 24% of customers now taking all three of TV, broadband and telephony

Bringing outstanding content, more innovation and greater value to Sky customers

- Sky Atlantic, a brand new entertainment channel, to launch on 1 February for Sky TV customers at no extra cost
- Sky Anywhere to allow easy access to Sky content on multiple devices, supported by acquisition of leading public Wi-Fi operator 'The Cloud'
- Improving customer service with the opening of new contact centres across the UK, creating 1,500 jobs at Sky

Excellent financial performance; strong growth in revenue, profit and cash flow

- Revenue up 15% to £3.2 billion with broadly-based growth
- Adjusted operating profit up 26% to £520 million; operating margin expansion of 140 basis points to 16.3%
- Adjusted basic EPS up 32% to 20.0 pence
- Adjusted free cash flow up 44% to £443 million
- Interim dividend up 11% to 8.74 pence

Results highlights

Customer Metrics (unaudited)

'000s	Quarterly Net Additions 31-Dec-10	Quarterly Net Additions 31-Dec-09	First Half Net Additions 31-Dec-10	First Half Net Additions 31-Dec-09	Closing Base 31-Dec-10
Net Customer Additions	140	172	236	266	10,096
Additional products					
Sky+HD	343	482	558	769	3,497
Multiroom	61	102	98	164	2,219
Broadband	204	101	382	201	3,006
Telephony	187	130	390	262	2,757
Line rental	269	178	529	387	2,215
Total Additional Product Growth	1,064	993	1,957	1,783	13,694
Total Net Product Growth	**1,204**	**1,165**	**2,193**	**2,049**	**23,790**
Other Metrics					
Gross Customer Additions (000)	378	402	752	764	
ARPU (quarterly annualised)	£541	£492			
Churn (quarterly annualised)	9.5%	9.6%			

Business Performance (unaudited) [1]

£'millions	6 months to Dec-10	6 months to Dec-09	% movement
Revenue	3,186	2,773	15%
Adjusted operating profit	520	414	26%
% Adjusted Operating Profit Margin	*16.3%*	*14.9%*	
Adjusted EBITDA	677	568	19%
Adjusted free cash flow	443	308	44%
Adjusted basic earnings per share [2]	20.0p	15.2p	32%
Net debt as at end of period	945	1,679	-44%

Reported Results (unaudited) [1]

£'millions	6 months to Dec-10	6 months to Dec-09	% movement
Revenue	3,186	2,773	15%
Operating profit	491	414	19%
Cash generated from operations	799	687	16%
Basic earnings per share	20.3p	15.4p	32%

[1] All comparatives are restated to reflect continuing operations, excluding the Easynet operations divested on 1 September 2010. A reconciliation of adjusted operating profit and adjusted EBITDA from continuing operations to reported measures and cash generated from continuing operations to adjusted free cash flow from continuing operations is set out in Appendix 4.

[2] Adjusted basic EPS is calculated from adjusted profit from continuing operations for the period. A reconciliation of reported profit to adjusted profit from continuing operations is set out in note 5 to the condensed consolidated interim financial statements.

Jeremy Darroch, Chief Executive, commented:

"The business has delivered a half year of outstanding performance, with record product sales and strong double-digit growth in revenue, profit and cash flow. In recognition of the growing strength of the business, we are increasing the interim dividend by a further 11%, the seventh consecutive year of growth.

"In the second quarter, we saw strong demand across the board, passing our target of 10 million customers and adding more than one million additional subscription products for the first time. In particular, high definition continued to grow strongly and we achieved our highest broadband growth for more than two years. Overall, almost one in four customers now choose to take all three of TV, broadband and telephony from us, which is contributing to further strong ARPU growth and good levels of customer loyalty.

"Looking ahead, we are cautious on the economic outlook for 2011, while remaining very confident in the long term opportunity for the business. We intend to maintain our consistent strategy of pursuing both growth and returns, by balancing sensible investment with a strong emphasis on operational efficiency.

"In this context, we will focus on giving even more value and better service to customers in 2011. Next week, customers can look forward to the launch of Sky Atlantic, a premium channel featuring outstanding entertainment from the US and the UK, available to Sky TV customers at no additional charge. Later in the year, we will launch a new service, Sky Anywhere, to make it easier for customers to enjoy our programmes wherever they are. And we will open a new facility in Sheffield as the next step in a programme to expand our network of contact centres, which will deliver an improved experience for customers and result in around 1,500 new Sky jobs around the UK."

OVERVIEW

The business has continued to perform well in the first six months of the 2011 fiscal year ("the period"), achieving our milestone of 10 million customers and delivering strong take-up of additional products. Total net product growth was 2.193 million, of which 1.204 million came in the three months to 31 December 2010 ("the quarter"). Within this, there was a particularly strong performance in high definition ("HD") and home communications. Almost 3.5 million customers now choose to subscribe to HD and we have exceeded three million Sky Broadband customers after achieving our highest growth for 10 quarters. In total, 24% of customers now take all three of TV, broadband and telephony, up by six percentage points on the prior year.

The strong operational performance is reflected in our financial results, which show double-digit growth in revenue, operating profit and cash flow. Group revenue for the period was 15% higher, with continued strong growth in retail subscription, wholesale and advertising revenues. Combined with our continued focus on operational efficiency, this delivered a 26% increase in adjusted operating profit, 140 basis points of margin improvement and a 32% increase in adjusted basic earnings per share.

The Directors are proposing an interim dividend of 8.74 pence per share. This represents an increase of 11% year on year and makes this the seventh consecutive year of increased dividends for shareholders. On the basis of the strong performance of the business, we expect to maintain good rates of dividend growth at the current payout ratio of around 50% of adjusted earnings.

OUTLOOK

Having achieved our 10 million customer milestone, we continue to see significant potential for long-term growth in the entertainment and communications marketplace. We expect that our growth will benefit from being more broadly based in the future, through the combination of continued take-up of pay TV, increasing penetration of premium TV products, growth in our share of home communications and in our other revenue lines.

Our approach will be to balance our ongoing focus on operational efficiency with continued, sensible investment in areas that customers value and in the long-term capabilities of the business. We believe this approach will deliver sustainable growth in revenue, profit and cash flow, thereby maximising value for shareholders.

In the short-term, we take a cautious view of the economic outlook for calendar 2011, as the impact of the Government's deficit reduction plan flows through to the consumer economy. In this context, we will stay flexible on costs while focusing on the customer, with more high-quality content, leading innovation and better service.

OPERATIONAL REVIEW

Operational Performance

We saw continued success in our multiproduct strategy in the quarter. Total net product growth was 1.204 million, with strong demand from both new and existing customers. Within this, net DTH additions for the quarter were 140,000, taking total customers to 10.096 million, with gross additions of 378,000 and slightly lower churn year on year at 9.5%.

We saw good growth in subscription product penetration across the board, with particularly strong performances in HD and home communications. HD net additions of 343,000 took the base to 3.497 million households. Since taking our decision to lower the upfront cost of the HD box two years ago, we have added a total of 2.718 million customers to our HD service.

During the quarter we further enhanced our channel line-up, bringing the HD versions of ITV2, ITV3, and ITV4 exclusively to pay TV. With 54 channels and growing, we maintain a strong leadership position in HD and are well positioned for future growth with the broadest HD content offering at great value.

In home communications we delivered another stand-out performance, with a new record total for combined broadband, telephony and line rental additions in the quarter of 660,000, 61% higher than the prior year. Broadband net additions of 204,000 were the highest for 10 quarters and continued strong growth in line rental customers took the total to 2.2 million, representing 22% penetration and an increase of nine percentage points on the prior year. In addition, we now have over 1.2 million customers on our unbundled network.

Today, 2.4 million customers take all of TV, broadband and telephony, 38% higher than the prior year, and there remains a significant opportunity for continued growth. As customers continue to respond to our great value products and reward us with more of their business, ARPU reached a new high of £541 per annum, which this quarter included £3 from the Haye vs Harrison pay per view event.

This second quarter performance completed a strong first half. Total net product growth of 2.193 million in the period means we have a total of 23.79 million products, 21% higher than the prior year. Within this, we saw continued net customer growth in the period of 236,000 (2010: 266,000) and a strong performance in both home communications and HD.

Content

We have made good progress in content, where we are building on our traditional strengths in sports, news and movies to extend our entertainment offering further.

On 1 February 2011, our new channel, Sky Atlantic, will launch for Sky TV customers. The channel will showcase must-see content from HBO, including the critically acclaimed 'Boardwalk Empire' and highly anticipated 'Game of Thrones'. The channel will also become the home of the award winning 'Mad Men' in 2011, as well as other distinctive programming from the US and the UK including an original comedy 'This Is Jinsy' and Paul Abbott's new drama, 'Hit and Miss'. The Sky Atlantic linear channel will be supplemented with an extensive on-demand offering, including catch-up TV and on-demand access to series' box sets. This premium content will be available at no extra charge to Sky TV customers as part of our basic channel line-up.

The integration of Living TV Group ("Living TV") is progressing well. The acquired channels complement our existing entertainment channel line-up with popular brands, high profile talent and talked-about programmes, generating strong appeal for our female viewers. Looking ahead, Living, which will be rebranded to Sky Living from 1 February, has a strong schedule with the return of popular series such as 'Grey's Anatomy' and 'America's Next Top Model.' As part of the integration of Living TV, we are allocating a greater proportion of our programming spend to the channel, investing in new content including the channel's first ever commissioned British drama, 'Bedlam', starring Will Young.

Sky1 continued its track record of bringing customers 'cut-through' programming. This quarter we screened more original British comedy with the conclusion of 'An Idiot Abroad', one of the most successful programmes in the channel's history, and 'Little Crackers,' a series of one-off comedy films featuring well known talent such as Catherine Tate, Stephen Fry, and Victoria Wood. In the coming months, Sky1 will continue its commitment to British drama, with original commissions of 'Mad Dogs' and Martina Cole's 'The Runaway.'

In sports, the Premier League season has continued strongly as customers enjoy more live games on Sky. Monday Night Football is proving popular, with the Manchester United vs Arsenal match on 13 December achieving a record audience for Monday Night Football of over three million viewers. We also achieved record ratings for England's autumn rugby internationals and excellent audiences for England's success in the Ashes series. Sky Movies had a strong quarter with six premieres each attracting audiences of more than one million in the first week of broadcast. Over Christmas, the world TV premiere of 'Avatar' aired in HD and 3D, achieving a cumulative audience of three million in the first week.

Innovation

We continue to innovate to add value for customers. In October, we launched Europe's first dedicated in-home 3D TV channel, bringing live 3D sport, movies and entertainment to top-tier HD customers at no extra cost. In addition to the regular Premier League games broadcast in 3D, this quarter we screened the Ryder Cup, Scottish international football, England's rugby internationals, world heavyweight boxing and world championship darts in 3D. We have screened a wide range of 3D movies including 'Alice in Wonderland', 'Monsters vs Aliens', 'Ice Age: Dawn of the Dinosaurs' and the world TV premiere of 'Avatar.' Over the Christmas period, we premiered our first piece of commissioned 3D content, 'Flying Monsters,' a natural history documentary written and presented by Sir David Attenborough.

Our full video-on-demand product, Sky Anytime+, launched in October and is a good example of the way in which we are utilising the broadband connectivity of the HD box to enhance the Sky+ experience. Customers with an HD box and our top broadband package can access a substantial library of on-demand entertainment at no extra charge, and Sky Movies customers also have on-demand access to our constantly updating movies library as part of their regular subscription.

We continue to take advantage of the growing opportunity to broaden distribution of our content beyond the DTH platform. Sky Mobile TV is now available on a number of devices, including the iPad and iPhone, and we are the leading media provider on mobile and tablet platforms in the UK with almost eleven million applications downloaded to date.

In anticipation of continued growth in sales of mobile data devices and increasing demand for flexible access to content, we will launch Sky Anywhere later this year, a new service allowing Sky TV customers to enjoy our programmes wherever they choose. Sky Anywhere will combine access to the existing Sky Player and Sky Mobile TV services to make it easy for customers and their families to access our content on multiple devices both inside and outside the home.

To support our mobile content activities, today we are announcing the acquisition of the leading public Wi-Fi operator, 'The Cloud'. The acquisition gives us ownership of over 5,000 public Wi-Fi locations across the UK, ensuring that customers can access our online service at a network of convenient locations. In addition, the initiative will complement our existing broadband services by offering customers a comprehensive option for Wi-Fi connectivity while they are on the move. For further detail, please refer to the 'Corporate' section below.

The Bigger Picture

As part of our commitment to making a positive contribution to the community, we delivered a number of initiatives in the quarter through our Bigger Picture programme.

To help combat climate change, we broadcast a week of environment-themed programming in November, including 'The Family Show Goes Green', showcasing the Sky Rainforest Rescue Schools Challenge on Sky Movies. In recognition of our efforts to reduce emissions from travel, we received WWF's '1 in 5' award for reducing air travel by 38% over the last 3 years. We were also awarded 'Sustainable Project of the Year' at the UK Green Building Council's Sustainability Awards 2010 for our new broadcasting facility.

In acknowledgment of our volunteering initiatives and the difference these make to the local community, we were awarded the 'Corporate Responsibility Award of the Year' by the HR Network Scotland. In our Scottish operations alone, more than 1,900 Sky people have volunteered through the scheme since March.

In October we launched Sky Talker, a new device that makes it easier for blind and partially-sighted customers to use the Sky Guide, our Electronic Programme Guide ("EPG"). Developed in partnership with the Royal National Institute of Blind People, Sky Talker will, for the first time, allow customers to hear some of the programme information and navigation functions contained within the EPG on our Sky+ box and Sky digiboxes.

FINANCIAL SUMMARY

Results for the six months to 31 December 2010 ('the period') reflect an excellent financial performance, with double digit growth in each of revenue, operating profit, cash flow and earnings. Group revenue was 15% higher than the prior year, the result of continued customer growth and increased penetration of additional products. Alongside this revenue growth, our focus on operational efficiency delivered an adjusted operating margin of 16.3% and a 26% increase in adjusted operating profit to £520 million. With higher income from joint ventures and associates and lower interest charges, this translated into adjusted basic earnings per share of 20.0 pence, 32% higher year on year.

The results for the period include the acquisition of Living TV, which completed on 12 July 2010. In the period, Living TV contributed £60 million in revenue (of which £45 million is advertising; £14 million is wholesale; and £1 million is other revenue) and £49 million of costs (of which £33 million is programming; £3 million is marketing; £10 million is transmission, technology and fixed networks; and £3 million is administration). In relation to Living TV, we incurred exceptional restructuring costs of £22 million principally relating to redundancy payments and the early termination of a pre-acquisition contract. These restructuring costs are included within reported operating profit of £491 million and excluded from adjusted figures.

Unless otherwise stated, all figures and growth rates exclude exceptional items and are from continuing operations (including Living TV in the current year and excluding Easynet from both the current year and the prior year comparative).

Revenue

Group revenue for the period increased by 15% on the prior year to £3,186 million (2010: £2,773 million) benefiting from strong growth in retail subscription, wholesale and advertising.

Retail subscription revenue increased to £2,631 million (2010: £2,294 million), up 15% year on year. The growth reflects strong total net product sales of 2.2 million in the period, as we continued to add new customers and sell more products. Our success in selling more products contributed to a 10% year on year increase in ARPU to £541, which this quarter included £3 from the Haye vs Harrison pay per view event.

Wholesale subscription revenue increased by 31% to £151 million (2010: £115 million) reflecting a higher number of wholesale subscribers to our premium channels, the first-time inclusion of wholesale revenues relating to Living TV and the carriage of HD on another platform for the first time. Excluding Living TV, wholesale revenue increased by 19%.

Advertising revenue of £236 million (2010: £168 million) was 40% higher, benefiting from our increased share of the TV advertising sector and the consolidation of Living TV. During the period, we estimate our share of TV advertising increased by nearly three percentage points year on year, to 17.4%. We continue to outperform the overall sector, which we estimate increased by 13% year on year, reflecting our increased share and continued growth in pay TV customers. Advertising revenue now includes revenue related to our online properties and Sky Magazine; of which £11 million was reclassified from 'other revenue' in the period and £11 million in the prior year comparative. Excluding Living TV, advertising revenue was 14% higher at £191 million.

Installation, hardware and service revenue was £63 million (2010: £99 million), reflecting our decision to lower the retail price of HD boxes in January 2010.

Other revenue increased by 8% to £105 million (2010: £97 million), benefiting from a continued strong performance in Sky Bet and the integration of Living TV. Excluding Living TV, other revenue was 7% higher.

Direct Costs

We continue to invest in high-quality content, creating more reasons for new customers to join Sky, as well as adding more value for existing customers. As a result, programming costs increased by 15% to £1,058 million (2010: £920 million) in line with revenue growth. Around half of the year on year increase is due to the acquisition of new sports rights, including the addition of the fifth Premier League pack, bringing customers 25% more games. Increased sports costs also reflected the biennial nature of the Ryder Cup and the inclusion of the Ashes. The remainder of the increase reflects our investment in entertainment, bringing more quality content to Sky1 with shows such as 'An Idiot Abroad' and 'Thorne', as well as the acquisition of Living TV. Movie costs were lower year on year, benefiting from improved terms on contract renewals. Third party channel costs were slightly higher, reflecting an increased number of HD channels on the platform.

Direct network costs were £269 million (2010: £207 million), 30% higher, directly related to strong growth in customers which led to 41% revenue growth in broadband and telephony.

Other Operating Costs

Marketing costs increased by £75 million to £613 million (2010: £538 million), reflecting acquisition-related expense associated with record net product sales and a greater proportion of new customers joining directly with the HD box. Above the line spend was also higher year on year, reflecting our campaign in home communications and the successful Sky Sports marketing campaign as well as the one-time launch costs of 3D.

The cost to acquire a new subscriber ("SAC") increased by £34, to £354. The increase reflects our success in increasing the proportion of new customers joining directly on our HD service and is consistent with the plans we set out when moving to our standardised HD box strategy.

Subscriber management and supply chain costs were £35 million lower, at £286 million, reflecting good progress in our operational efficiency programmes. In supply chain, we are benefiting from lower box costs and more reliable boxes, as we increase the proportion of set-top boxes sourced in-house. The cost reduction also reflects a lower number of engineer visits, as an increased proportion of jobs are completed right first time and more upgrading customers chose our self-install option.

Transmission, technology and fixed network costs increased by 27% to £189 million (2010: £149 million). Living TV contributed £10 million of the increase. In addition, we incurred higher net transponder costs, as more capacity is used for our own HD channels as well as the inclusion of costs for network services previously accounted for within the Group by Easynet.

Administration costs, excluding exceptional items, were £251 million (2010: £224 million) reflecting the consolidation of Living TV and the increase in the Group's non-cash IFRS 2 'Share-based payment' charge and associated National Insurance costs. The phasing of the Group's share-based compensation schemes and the increase in the share price when compared to the prior year contributed to a £20 million increase in the period, despite the volumes of awards made remaining broadly constant. Excluding this amount and the integration of Living TV, administration costs were broadly flat. The IFRS 2 charge and related National Insurance costs for the year are expected to be around £80 million, an increase of £35 million.

Earnings

On an adjusted basis, profit before tax from continuing operations was £477 million (2010: £364 million) including the Group's share of joint ventures and associates' profits of £17 million (2010: £14 million) and a net interest charge of £60 million (2010: £64 million).

Taxation excluding exceptional items was £129 million (2010: £99 million). We expect the adjusted tax charge on continuing operations to be approximately 27% for the full year (2010: 27%). The effective rate is largely unchanged with the reduction in the UK statutory rate, from 28% to 27% in April 2011, having only a modest positive impact on the full year rate.

Adjusted profit for the period was £348 million (2010: £265 million), generating an adjusted basic earnings per share from continuing operations of 20.0 pence (2010: 15.2 pence). Please refer to the 'Exceptional Items' paragraph for more detail.

Reported profit before tax for the period from continuing operations of £467 million (2010: £371 million) includes the Group's share of joint ventures and associates' profits of £17 million (2010: £14 million) and a net interest charge of £41 million (2010: £57 million). Reported taxation was £113 million (2010: £102 million) resulting in profit for the period from continuing operations of £354 million (2010: £269 million) and basic earnings per share of 20.3 pence (2010: 15.4 pence).

Reported profit for the period including discontinued operations was £407 million (2010: £256 million) resulting in reported basic earnings per share of 23.3 pence (2010: 14.7 pence).

Over the entire period the weighted average number of shares excluding those held by the Employee Share Ownership Plan for the settlement of employee share awards was 1,744 million.

Cash Flow and Financial Position

Reported cash generated from continuing operations was 16% higher at £799 million (2010: £687 million), reflecting higher EBITDA and broadly level working capital.

Capital expenditure was £221 million (2010: £198 million) - 6.9% of revenue - and broadly in line with our expectations of sustainable capex around 6.5% of revenue in the medium term. We continued with the technical fit-out of our new broadcast facility in the period and expanded our broadband network by a further 141 exchanges.

Adjusted free cash flow was 44% higher at £443 million. See Appendix 4 for details of adjusting items. Net cash inflow from continuing operations was £79 million (2010: outflow of £299 million) and included the acquisition of Living TV.

Strong cash flow generation during the period contributed to a reduction in net debt to £945 million, for a reconciliation of net debt see Appendix 4. The Group's liquidity and headroom remain comfortable with no bond redemptions falling due until October 2015 and the Group's revolving credit facility of £750 million remaining undrawn.

Exceptional Items

Reported operating profit of £491 million included £22 million of restructuring costs arising on the acquisition of Living TV, which comprise principally redundancy payments and costs related to the early termination of an existing contract. Costs of £7 million relating to the News Corporation proposal were also incurred in the period; both of these amounts were classified as administration costs.

Reported profit after tax also included a £34 million exceptional gain (2010: £7 million gain), of which £19 million were mark to market gains relating to derivative financial instruments not qualifying for hedge accounting and gains and losses arising from designated fair value hedge accounting relationships, and a £15 million non-cash tax credit for a tax settlement relating to the network operations retained from the Easynet business. Related tax effects on exceptional items is a £1 million gain (2010: £3 million loss).

Distribution to Shareholders

The Directors are proposing an interim dividend of 8.74 pence per share. This represents an increase of 11% year on year and makes this the seventh consecutive year of increased dividend for shareholders.

The ex-dividend date will be 30 March 2011 and the dividend will be paid on 21 April 2011 to shareholders of record on 1 April 2011.

The final dividend in respect of 2009/10 financial year was paid to shareholders during the period, resulting in a total cash dividend payment in respect of the 2009/10 financial year of £339 million.

Corporate

News Corporation Proposal

On 21 December 2010, the European Commission announced its decision to approve the News Corporation proposal to acquire the shares it does not already own in BSkyB without a further Phase Two review.

Separately, after receiving a report from Ofcom, the Secretary of State intends to refer the proposal to the Competition Commission for a further review of whether the proposal raises public interest considerations in respect of media plurality. However, prior to making a final decision, the Secretary of State will consider undertakings in lieu offered by News Corporation to address the concerns raised by Ofcom's report.

BSkyB will continue to co-operate with the ongoing regulatory process.

The Cloud

On 11 January 2011, the Group reached an agreement to acquire The Cloud Networks Limited ("The Cloud"), a public Wi-Fi network operator. Completion of the transaction is subject to regulatory clearance in Jersey. The Cloud had gross assets of £17.1 million as at 31 December 2009, its most recent audited group financial statements.

Risks and uncertainties

The Board continually assesses and monitors the key risks of the business. The following key risks that could affect the Group's long-term performance, and the factors which mitigate these risks, are set out in more detail on pages 23 – 26 of the 2010 Annual Report. Other than where indicated below, the Board does not consider that the following principal risks and uncertainties have changed. 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 highly 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. Since the 2010 Annual Report, Ofcom announced its decision to refer the supply and acquisition of certain pay-TV movie rights and the supply and acquisition of pay-TV packages including certain movie channels to the Competition Commission ("CC") for investigation. The CC's provisional findings are due to be published in April. The Group is not yet able to assess whether, or the extent to which this review 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's business is reliant on technology which is subject to the risk of failure, change and development.
- The Group is reliant on encryption and other technologies to restrict unauthorised access to its services.
- Failure of key suppliers could affect the Group's ability to operate its business.
- The Group undertakes significant capital expenditure projects, including technology and property projects.
- 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 generates wholesale revenue principally from one customer.
- The Group is subject to a number of medium and long-term obligations.

Responsibility statement

The directors confirm that to the best of their knowledge:

- The unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 as adopted by the EU.
- The interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules.

The directors of British Sky Broadcasting Group plc are listed on pages 34 – 35 of the 2010 Annual Report.

Copies of this report are available on the Company's website, www.sky.com/corporate, and in hard copy from the Company Secretary, British Sky Broadcasting Group plc, Grant Way, Isleworth, Middlesex TW7 5QD.

By order of the Board
Jeremy Darroch
Chief Executive Officer

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There will be a presentation to analysts and investors at 09:30 a.m. (GMT) today. Participants must register by contacting Emily Dimmock or Yasmin Charabati on +44 20 7251 3801 or at bskyb@finsbury.com. In addition, a live webcast of this presentation to UK/European analysts and investors will be available via http://www.sky.com/investors and subsequently available for replay.

There will be a separate conference call for US analysts and investors at 10.00 a.m. (EST) today. Details of this call have been sent to US institutions and can be obtained from Dana Diver at Taylor Rafferty on +1 212 889 4350. A live conference call and supporting materials will be available on Sky's corporate website, http://www.sky.com/corporate. A replay will be subsequently available.

Use of measures not defined under IFRS

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

Forward-looking statements

This document contains certain forward-looking statements 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, broadband and bandwidth requirements, advertising growth, Direct-to-Home ("DTH") customer growth, Multiroom, Sky^{+}, Sky^{+}HD and other services' penetration, churn, DTH and other revenue, profitability and margin growth, cash flow generation, programming costs, subscriber management and supply chain costs, administration costs and other costs, marketing expenditure, capital expenditure programmes, and proposals for returning capital to shareholders.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, these statements 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, those risks that are set out in the document in the section entitled "Risks and uncertainties".

All forward-looking statements in this document are based on information known to the Group on the date hereof. The Group undertakes no obligation publicly to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Appendix 1 - Glossary

Useful definitions	Description
Adjusted earnings per share (EPS)	Adjusted profit for the period divided by the weighted average number of ordinary shares during the period.
Adjusted operating profit and margin	Operating profit excluding exceptional items. Adjusted operating margin is stated as a percentage of adjusted revenue.
Adjusted profit for the period	Profit for the period adjusted to remove exceptional items and related tax effects
ARPU	Average Revenue Per User: the amount spent by the Group's residential subscribers in the quarter, divided by the average number of residential subscribers in the quarter, annualised.
Churn	The number of customers over a given period that terminate their subscription in its entirety, net of former customers who reinstated their subscription in that period (where such reinstatement is within a 12 month period of the termination of their original subscription), expressed as an annualised percentage of total average customers for the period.
Customer	A subscriber to a DTH service.
DSL	Digital Subscriber Line
DTH	Direct-to-Home: the transmission of satellite services and functionality with reception through a mini dish. The Group also retails certain Sky Channels to a limited number of DSL subscribers and Sky Player subscribers (references throughout to "DTH subscribers" include DSL and Sky Player subscribers)
EBITDA	Earnings before joint ventures, interest, taxation, depreciation and amortisation is calculated as operating profit before depreciation, amortisation and impairment of property, plant and equipment and intangible assets.
Exceptional Items	Items that arise from events or transactions that fall within the ordinary activities of the Group, but which management believes should be separately identified to help explain underlying performance.
Free cash flow	The amount of cash generated by Sky after meeting obligations for interest and tax, after all capital expenditure and net cash flows relating to joint ventures and associates.
HD	High Definition television.
Multiroom	Installation of an additional set-top box in the household of an existing customer.
Net debt	Borrowings net of cash and cash-equivalents, short-term deposits, and borrowings related derivative financial instruments
Sky Broadband and Talk	Residential Sky Broadband and Sky Talk customers. UK Online customers are excluded from quoted subscriber figures.
Sky Player customer	A non DTH customer on the Sky Player platform, purchasing Sky Player retailed packages via a broadband connection.
Sky^{+}	Sky's fully-integrated Personal Video Recorder (PVR) and satellite decoder. This includes Sky^{+}HD decoders.
Viewing share	Number of people viewing a channel as a percentage of total viewing audience.

Appendix 2 – Condensed Consolidated Income Statement for the three months ended 31 December 2010

	2010/11 Three months ended 31 December £ million	2009/10 Three months ended 31 December £ million
Continuing operations		
Revenue	**1,660**	1,443
Operating expense	**(1,417)**	(1,233)
EBITDA	**320**	289
Depreciation and amortisation	**(77)**	(79)
Operating profit	**243**	210
Share of results of joint ventures and associates	**10**	8
Investment income	**2**	1
Finance costs	**(18)**	(34)
Profit before tax	**237**	185
Taxation	**(65)**	(50)
Profit for the period from continuing operations	**172**	135
Discontinued operations		
Profit (loss) for the period from discontinued operations	**7**	(7)
Profit for the period	**179**	128
Earnings (loss) per share from profit (loss) for the period (in pence)		
Basic		
Continuing operations	**9.8p**	7.7p
Discontinued operations	**0.4p**	(0.4)p
Total	**10.2p**	7.3p
Diluted		
Continuing operations	**9.8p**	7.7p
Discontinued operations	**0.4p**	(0.4)p
Total	**10.2p**	7.3p
Adjusted earnings per share from adjusted profit for the period from continuing operations (in pence)		
Basic	**10.3p**	7.9p
Diluted	**10.2p**	7.9p

Appendix 3 – Condensed Consolidated Interim Financial Statements

Condensed Consolidated Income Statement for the half year ended 31 December 2010

	Notes	**2010/11 Half year £ million**	2009/10 Half year £ million
Continuing operations			
Revenue	2	**3,186**	2,773
Operating expense	3	**(2,695)**	(2,359)
EBITDA		**648**	568
Depreciation and amortisation		**(157)**	(154)
Operating profit		**491**	414
Share of results of joint ventures and associates		**17**	14
Investment income		**4**	2
Finance costs		**(45)**	(59)
Profit before tax		**467**	371
Taxation		**(113)**	(102)
Profit for the period from continuing operations		**354**	269
Discontinued operations			
Profit (loss) for the period from discontinued operations	4	**53**	(13)
Profit for the period		**407**	256
Earnings (loss) per share from profit (loss) for the period (in pence)			
Basic	5		
Continuing operations		**20.3p**	15.4p
Discontinued operations		**3.0p**	(0.7)p
Total		**23.3p**	14.7p
Diluted	5		
Continuing operations		**20.2p**	15.3p
Discontinued operations		**3.0p**	(0.7)p
Total		**23.2p**	14.6p
Adjusted earnings per share from adjusted profit for the period from continuing operations (in pence)			
Basic	5	**20.0p**	15.2p
Diluted	5	**19.8p**	15.1p

Condensed Consolidated Statement of Comprehensive Income for the half year ended 31 December 2010

	2010/11 Half year £ million	2009/10 Half year £ million
Profit for the period attributable to equity shareholders of the parent company	**407**	256
Other comprehensive income		
Amounts recognised directly in equity		
Exchange differences on translation of foreign operations	**(3)**	5
Gain on revaluation of available-for-sale investments	**54**	140
(Loss) gain on cash flow hedges	**(55)**	7
Tax on cash flow hedges	**16**	(2)
	12	150
Amounts reclassified and reported in the income statement		
Gain (loss) on cash flow hedges	**15**	(24)
Tax on cash flow hedges	**(4)**	7
Transfer to income statement on disposal of foreign operations	**3**	-
	14	(17)
Other comprehensive income for the period (net of tax)	**26**	133
Total comprehensive income for the period attributable to equity shareholders of the parent company	**433**	389

Condensed Consolidated Balance Sheet as at 31 December 2010

	31 December 2010 £ million	31 December 2009 £ million	30 June 2010 £ million
Non-current assets			
Goodwill	**916**	852	852
Intangible assets	**426**	347	336
Property, plant and equipment	**880**	804	899
Investments in joint ventures and associates	**159**	145	149
Available-for-sale investments	**237**	401	182
Deferred tax assets	**26**	18	-
Trade and other receivables	**14**	23	18
Derivative financial assets	**316**	211	382
	2,974	2,801	2,818
Current assets			
Inventories	**747**	700	343
Trade and other receivables	**551**	638	538
Short-term deposits	**370**	-	400
Cash and cash equivalents	**797**	494	649
Derivative financial assets	**33**	29	56
	2,498	1,861	1,986
Total assets	**5,472**	4,662	4,804
Current liabilities			
Trade and other payables	**1,999**	1,873	1,526
Current tax liabilities	**172**	167	136
Provisions	**20**	17	27
Derivative financial liabilities	**5**	21	10
	2,196	2,078	1,699
Non-current liabilities			
Borrowings	**2,390**	2,322	2,458
Trade and other payables	**31**	70	52
Provisions	**9**	11	11
Derivative financial liabilities	**25**	57	17
Deferred tax liability	**-**	-	7
	2,455	2,460	2,545
Total liabilities	**4,651**	4,538	4,244
Share capital	**876**	876	876
Share premium	**1,437**	1,437	1,437
Reserves	**(1,492)**	(2,189)	(1,753)
Total equity attributable to equity shareholders of the parent company	**821**	124	560
Total liabilities and shareholders' equity	**5,472**	4,662	4,804

Condensed Consolidated Cash Flow Statement for the half year ended 31 December 2010

	Notes	**2010/11 Half year £ million**	2009/10 Half year £ million
Continuing operations			
Cash flows from operating activities			
Cash generated from operations	7	**799**	687
Interest received		**3**	2
Taxation paid		**(90)**	(101)
Net cash from operating activities		**712**	588
Cash flows from investing activities			
Dividends received from joint ventures and associates		**7**	8
Net funding to joint ventures and associates		**(3)**	(1)
Purchase of property, plant and equipment		**(103)**	(105)
Purchase of intangible assets		**(118)**	(93)
Purchase of subsidiaries (net of cash and cash equivalents purchased)		**(174)**	-
Proceeds on disposal of property, plant and equipment		**1**	1
Decrease in short-term deposits		**30**	90
Net cash used in investing activities		**(360)**	(100)
Cash flows from financing activities			
Repayment of borrowings		**-**	(482)
Proceeds from disposal of shares in Employee Share Ownership Plan ("ESOP")		**5**	2
Purchase of own shares for ESOP		**(16)**	(42)
Interest paid		**(61)**	(89)
Dividends paid to shareholders		**(201)**	(176)
Net cash used in financing activities		**(273)**	(787)
Net increase (decrease) in cash and cash equivalents		**79**	(299)
Cash generated from (used in) discontinued operations		**69**	(18)
Cash and cash equivalents at the beginning of the period		**649**	811
Cash and cash equivalents at the end of the period		**797**	494

Condensed Consolidated Statement of Changes in Equity for the half year ended 31 December 2010

	Share capital £ million	Share premium £ million	ESOP reserve £ million	Hedging reserve £ million	Available-for-sale reserve £ million	Other reserves £ million	Retained earnings £ million	Shareholders' (deficit) equity £ million
At 30 June 2009	**876**	**1,437**	**(73)**	**26**	**96**	**354**	**(2,780)**	**(64)**
Profit for the period	-	-	-	-	-	-	256	256
Exchange differences on translation of foreign operations	-	-	-	-	-	5	-	5
Revaluation of available-for-sale investment	-	-	-	-	140	-	-	140
Recognition and transfer of cash flow hedges	-	-	-	(17)	-	-	-	(17)
Tax on items taken directly to equity	-	-	-	5	-	-	-	5
Total comprehensive income for the period	**-**	**-**	**-**	**(12)**	**140**	**5**	**256**	**389**
Share-based payment	-	-	22	-	-	-	(49)	(27)
Tax on items taken directly to equity	-	-	-	-	-	-	2	2
Dividends	-	-	-	-	-	-	(176)	(176)
At 31 December 2009	**876**	**1,437**	**(51)**	**14**	**236**	**359**	**(2,747)**	**124**
Profit for the period	-	-	-	-	-	-	622	622
Exchange differences on translation of foreign operations	-	-	-	-	-	3	-	3
Revaluation of available-for-sale investment	-	-	-	-	(23)	-	-	(23)
Transfer to income statement on disposal of available-for-sale investment	-	-	-	-	(115)	-	-	(115)
Recognition and transfer of cash flow hedges	-	-	-	88	-	-	-	88
Tax on items taken directly to equity	-	-	-	(25)	-	-	-	(25)
Total comprehensive income for the period	**-**	**-**	**-**	**63**	**(138)**	**3**	**622**	**550**
Share-based payment	-	-	4	-	-	-	13	17
Tax on items taken directly to equity	-	-	-	-	-	-	7	7
Dividends	-	-	-	-	-	-	(138)	(138)
At 30 June 2010	**876**	**1,437**	**(47)**	**77**	**98**	**362**	**(2,243)**	**560**
Profit for the period	-	-	-	-	-	-	407	407
Revaluation of available-for-sale investment	-	-	-	-	54	-	-	54
Recognition and transfer of cash flow hedges	-	-	-	(40)	-	-	-	(40)
Tax on items taken directly to equity	-	-	-	12	-	-	-	12
Total comprehensive income for the period	**-**	**-**	**-**	**(28)**	**54**	**-**	**407**	**433**
Share-based payment	-	-	(9)	-	-	-	31	22
Tax on items taken directly to equity	-	-	-	-	-	-	7	7
Dividends	-	-	-	-	-	-	(201)	(201)
At 31 December 2010	**876**	**1,437**	**(56)**	**49**	**152**	**362**	**(1,999)**	**821**

Notes to the condensed consolidated interim financial statements

1 Basis of preparation

The unaudited condensed consolidated interim financial statements for the half year ended 31 December 2010 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") as adopted for use in the European Union ("EU") and issued by the International Accounting Standards Board ("IASB"). The condensed consolidated interim financial statements have been prepared on a going concern basis and have been prepared using accounting policies and methods of computation consistent with those applied in the financial statements for the year ended 30 June 2010, except for new accounting pronouncements which have become effective this period, none of which had any significant impact on the Group's results or financial position.

The condensed consolidated interim financial statements are presented on a condensed basis as permitted by IAS 34 and therefore do not include all disclosures that would otherwise be required in a full set of financial statements and should be read in conjunction with the 2010 Annual Report. The condensed consolidated interim financial statements do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006 and are unaudited for all periods presented. The financial information for the full year ended 30 June 2010 is extracted from the financial statements for that year. A copy of the statutory accounts has been delivered to the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain any statement under section 498(2) and (3) of the Companies Act 2006.

The Group maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal 2011, this date will be 3 July 2011, this being a 53 week year (fiscal year 2010: 27 June 2010, 52 week year). The condensed consolidated interim financial statements are based on the 26 weeks ended 26 December 2010 (fiscal year 2010: 26 weeks ended 27 December 2009). For convenience purposes, the Group continues to date its consolidated financial statements as at 30 June, and its condensed consolidated interim financial statements as at 31 December.

Going Concern

The Group has updated the analysis which supported its assessment of going concern set out on page 45 of the 2010 Annual Report, and continues to believe that its existing external financing, together with internally generated cash inflows, will continue to provide sufficient sources of liquidity to fund its current operations, including its contractual obligations and commercial commitments, its approved capital expenditure requirements and any dividends proposed for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

2 Revenue

	2010/11 Half year £ million	2009/10 Half year £ million
Continuing operations		
Retail subscription	**2,631**	2,294
Wholesale subscription	**151**	115
Advertising	**236**	168
Installation, hardware and service	**63**	99
Other	**105**	97
	3,186	2,773

To provide a more relevant presentation, management has reclassified online properties and Sky Magazine advertising revenue of £11 million from "Other" to "Advertising" in both the current period and the comparative period.

3 Operating expense

	2010/11 Half year £ million	2009/10 Half year £ million
Continuing operations		
Programming	**1,058**	920
Direct networks	**269**	207
Transmission, technology and fixed networks	**189**	149
Marketing	**613**	538
Subscriber management and supply chain	**286**	321
Administration (i)	**280**	224
	2,695	2,359

(i) Included within administration costs for the period ended 31 December 2010 is £22 million of restructuring costs arising on the acquisition of Living TV, which comprise principally redundancy payments and costs related to the early termination of an existing contract and £7 million of costs in relation to the News Corporation proposal.

4 Discontinued operations

On 1 September 2010, the Group completed the sale of its business-to-business telecommunications operation, Easynet Global Services ("Easynet"), to Lloyds Development Capital ("LDC") for £100 million. Subsequent to this an agreed working capital adjustment reduced total net consideration to £94 million.

The Group retains the UK network assets that it acquired as part of the original acquisition of Easynet Group in 2005. As part of the sale, the Group and LDC entered into a long-term supply agreement to grant Easynet continued access to the Group's fibre network and Easynet continues to be a key supplier of data network and hosting services to the Group.

Easynet represented a separate major line of business for the Group. As a result its operations have been treated as discontinued for the six months ended 31 December 2010 and the six months ended 31 December 2009. A single amount is shown on the face of the condensed consolidated income statement comprising the post-tax result of discontinued operations and the post-tax profit recognised on the disposal of the discontinued operation.

A pre-tax profit of £63 million arose on the disposal of Easynet being the net proceeds of disposal less the carrying amount of Easynet's net liabilities and attributable goodwill.

The results of discontinued operations, which have been included in the condensed consolidated income statement, were as follows:

	2010/11 Half Year(i) £ million	2009/10 Half Year £ million
Revenue	**32**	100
Operating expense	**(34)**	(113)
Operating loss	**(2)**	(13)
Profit on disposal	**63**	-
Profit (loss) before tax	**61**	(13)
Attributable tax expense	**(8)**	-
Profit (loss) attributable to discontinued operations	**53**	(13)

(i) Results for the half year ended 31 December 2010 include the results of discontinued operations up to the date of disposal (1 September 2010).

During the period, cash flows attributable to Easynet comprised a net operating cash outflow of £7 million (2010: outflow of £13 million) and a cash inflow in respect of investing activities of £76 million (2010: outflow of £5 million).

5 Earnings per share

	2010/11 Half year Shares (millions)	2009/10 Half year Shares (millions)
The weighted average number of shares for the period was:		
Ordinary shares	**1,753**	1,753
ESOP trust ordinary shares	**(9)**	(11)
Basic shares	**1,744**	1,742
Dilutive ordinary shares from share options	**10**	9
Diluted shares	**1,754**	1,751

The calculation of diluted earnings per share excludes 3 million share options (2010: 14 million), which could potentially dilute earnings per share in the future, but which have been excluded from the calculation of diluted earnings per share as they are anti-dilutive in the period.

Basic and diluted earnings per share are calculated by dividing profit or loss for the period into the weighted average number of shares for the period. In order to provide a measure of underlying performance, management have chosen to present an adjusted profit for the period which excludes items that may distort comparability. Such items arise from events or transactions that fall within the ordinary activities of the Group but which management believes should be separately identified to help explain underlying performance.

Reconciliation from profit for the period from continuing operations to adjusted profit for the period from continuing operations	**2010/11 Half year £ million**	2009/10 Half year £ million
Profit for the period from continuing operations	**354**	269
Living TV restructuring costs (see note 9)	**22**	-
Costs in relation to News Corporation proposal (see note 8a)	**7**	-
Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness	**(19)**	(7)
Tax credit on settlement of liability (i)	**(15)**	-
Tax effect of above items	**(1)**	3
Adjusted profit for the period from continuing operations	**348**	265

(i) Tax credit arising on the settlement of the pre-acquisition tax liabilities of a subsidiary of the Group.

6 Dividends

	2010/11 Half year £ million	2009/10 Half year £ million	2009/10 Full year £ million
Dividends declared and paid during the period			
2009 Final dividend paid: 10.10p per ordinary share	**-**	176	176
2010 Interim dividend paid: 7.875p per ordinary share	**-**	-	138
2010 Final dividend paid: 11.525p per ordinary share	**201**	-	-
	201	176	314

The proposed 2011 interim dividend is 8.74 pence per ordinary share being £152 million. The dividend was proposed after the balance sheet date and is therefore not recognised as a liability as at 31 December 2010.

7 Notes to the Condensed Consolidated Cash Flow Statement

Reconciliation of profit before taxation from continuing operations to cash generated from operations from continuing operations

	2010/11 Half year £ million	2009/10 Half year £ million
Profit before taxation	**467**	371
Depreciation and impairment of property, plant and equipment	**80**	74
Amortisation and impairment of intangible assets	**77**	80
Share-based payment expense	**34**	18
Net finance costs	**41**	57
Share of results of joint ventures and associates	**(17)**	(14)
	682	586
Increase in trade and other receivables	**(27)**	(28)
Increase in inventories	**(365)**	(313)
Increase in trade and other payables	**519**	447
Decrease in provisions	**(8)**	(2)
Decrease in derivative financial instruments	**(2)**	(3)
Cash generated from continuing operations	**799**	687

8 Other matters

a) Costs in relation to News Corporation proposal

During the period, the Group incurred advisory fees in relation to the News Corporation proposal and will continue to incur these fees as the process progresses. Additional fees will also be payable if News Corporation were to make a formal offer for the entire issued share capital of the Company not already owned by News Corporation.

If merger clearance is not granted or granted subject to a material remedy, then News Corporation will reimburse the Company for costs incurred up to a maximum of £20 million. Further, if News Corporation either receives merger clearance unconditionally or subject to non-material remedies prior to 31 December 2011 and fails to make a firm offer within five months thereafter, or announces prior to obtaining merger clearance that it does not intend to make a firm offer, then News Corporation will pay the Company a fee of £38.5 million.

b) Guarantees

Certain subsidiaries of the Company have agreed to provide additional funding to several of their investments in limited and unlimited companies and partnerships in accordance with funding agreements. Payment of this additional funding would be required if requested by the investees in accordance with the funding agreements. The maximum potential amount of future payments which may be required to be made by the subsidiaries of the Company to their investments, in both limited and unlimited companies and partnerships under the undertakings and additional funding agreements, is £42 million (2010: half year: £8 million; full year: £8 million).

9. Acquisition of subsidiaries

On 12 July 2010, the Group completed the purchase of 100% of the shares of Virgin Media Television Limited, Virgin Media Television Rights Limited, and the assets and liabilities of the Virgin Media television channels, subsequently renamed the Living TV Group ("Living TV"). Living TV operates a portfolio of television channels including Living (to be renamed Sky Living), Virgin1 (renamed Channel One) and Challenge which are distributed over various television platforms and generate revenue principally from the sale of advertising airtime and carriage fees paid by Pay-TV operators such as Virgin Media and Sky. Living TV was acquired to complement the Group's existing content business and to deliver strategic and financial benefits.

Total consideration comprised £158 million cash after adjustments which included a working capital adjustment.

Recognised amounts of identifiable assets acquired and liabilities assumed	**Net book value £ million**	**Fair value adjustments £ million**	**Recognised values £ million**
Intangible assets	-	80	80
Property, plant and equipment	1	-	1
Trade and other receivables	36	-	36
Inventory	88	(48)	40
Deferred tax asset	-	5	5
Trade and other payables	(93)	-	(93)
	32	**37**	**69**
Goodwill			89
Total consideration			**158**
Satisfied by:			
Cash			**158**

The amounts in the above table are provisional.

The fair value of the financial assets includes trade receivables with a fair value of £10 million and a gross contractual value of £11 million. The best estimate at the acquisition date of the contractual cash flows not likely to be collected was £1 million.

Goodwill of £89 million arising from the acquisition is attributable to the anticipated profitability arising from the Group's access to additional viewer demographics, breadth of content and channel slots and the anticipated future operating synergies from the combination. All of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition-related costs included in administration costs in the Group's condensed consolidated income statement, for the period ended 31 December 2010, amounted to £22 million (2010: half year: nil) and comprise principally redundancy payments and costs related to the early termination of an existing contract.

For the period between the date of purchase and 31 December 2010, Living TV contributed £60 million to the Group's revenue, and £11 million to the Group's profit before tax. Had the Group completed the purchase of Living TV on the first day of the financial year, Group revenue and Group profit for the period would not have been materially different from the reported results.

During the period, the Group also purchased 81% of the trade and assets of a marketing database services business belonging to Experian plc which resulted in additional goodwill of £5 million.

10. Transactions with related parties and major shareholders

a) Entities with joint control or significant influence

The Group conducts business transactions with companies that are part of the News Corporation group ("News Corporation"), a major shareholder. During the current period, the Group supplied £16 million of programming, set-top boxes, telephony, airtime, transmission, marketing and consultancy services to News Corporation (2010: half year: £15 million). Amounts owed by News Corporation to the Group at the period end totalled £2 million (2010: half year: £2 million; full year: £3 million). During the current period, the Group purchased £95 million of programming, digital equipment, smartcards and encryption services, set-top box technologies, advertising, IT services and rental premises from News Corporation companies (2010: half year: £97 million). Amounts owed to News Corporation by the Group at the period end totalled £74 million (2010: half year £59 million; full year: £70 million). News Corporation has entered into an agreement with the Group pursuant to which it has been agreed that, for so long as News Corporation directly or indirectly holds an interest of 30% or more in the Group, News Corporation will not engage in the business of satellite broadcasting in the UK or Ireland. On 15 June 2010, News Corporation announced a proposal relating to a possible offer for the entire issued share capital of BSkyB not already owned by News Corporation ("the Proposal"). The Company announced on the same date that the Proposal, which is not a formal offer, is subject to regulatory and financing pre-conditions, which add considerable uncertainty to when and whether any formal offer could be made. Details of the Proposal are included on page 97 of the 2010 Annual Report.

b) Joint ventures and associates

Transactions between the Group and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. During the period the Group supplied services of £10 million to its joint ventures and associates (2010: half year: £6 million). Services supplied are primarily the provision of transponder capacity, marketing, airtime sales and support services. Amounts owed by joint ventures and associates at the period end totalled £30 million (2010: half year: £24 million; full year: £26 million) and include £22 million (2010: half year: £20 million; full year: £20 million) relating to loan funding. These loans bear interest at rates of three month LIBOR plus 0.45%, six month LIBOR plus 1.5% and one month and six month LIBOR plus 1%. The maximum amount of loan funding outstanding in total from joint ventures and associates during the period was £22 million (2010: half year: £20 million; full year: £20 million). During the period the Group purchased goods and services of £29 million from its joint ventures and associates (2010: half year: £27 million). Purchases represent fees payable for channel carriage. Amounts owed to joint ventures and associates by the Group at the period end totalled £4 million (2010: half year: £4 million; 2010: full year: £4 million). The Group took out a number of forward exchange contracts with counterparty banks during the period on behalf of the joint venture AETN UK. On the same dates as these forward contracts were entered into, the Group entered into equal and opposite contracts with AETN UK in respect of these forward contracts. The Group was not exposed to any of the net gains or losses on these forward contracts. The face value of forward exchange contracts that had not matured as at 31 December 2010 was £2 million (2010: half year: £2 million; full year: £1 million). During the current period, US$2 million (2010: half year: US$3 million) was paid to the joint ventures upon maturity of forward exchange contracts and less than US$1 million (2010: half year: US$1 million) was received from joint ventures upon maturity of forward exchange contracts. During the current period, £1 million (2010: half year: £1 million) was received from the joint ventures upon maturity of forward exchange contracts, and £1 million (2010: half year: £1 million) was paid to the joint ventures upon maturity of forward exchange contracts. During the current period, €1 million (2010: half year: nil) was received from the joint ventures upon maturity of forward exchange contracts.

c) Other transactions with related parties

A close family member of one Director of the Company who served during the period has a controlling interest in Shine Limited ("Shine"), in which the Group also has a 13% equity shareholding. During the period, the Group incurred programming and production costs for television of £7 million (2010: half year: £1 million) from Shine. At 31 December 2010, £4 million was payable to Shine (2010: half year: nil; full year: nil). A close family member of one Director of the Company is a director of Freud Entertainment Limited ("Freud"), which has provided external support to the press and publicity activities of the Group. During the period, the Group incurred expenditure of £1 million with Freud (2010: half year: less than £1 million). At 31 December 2010, there were no outstanding amounts (2010: half year: nil; full year: nil) due to Freud. In addition to the foregoing, the Group has engaged in a number of transactions with companies of which some of the Company's Directors are also Directors; however the Group does not consider these to meet the definition of Related Party Transactions.

10. Transactions with related parties and major shareholders (continued)

d) Key management

At 31 December 2010, there were 14 (2010: half year: 14; full year: 14) members of key management, all of whom were Directors of the Company. During the period, key management received £3 million in short-term employee benefits (2010: half year: £2 million) and £3 million in share-based payments (2010: half year: £2 million). Post employment benefits were less than £1 million in each period.

11. Events after the reporting period

On 11 January 2011, the Group reached an agreement to acquire The Cloud Networks Limited ("The Cloud"), a public Wi-Fi network operator. Completion of the transaction is subject to regulatory clearance in Jersey.

Independent review report to British Sky Broadcasting Group plc

We have been engaged by the Company to review the condensed consolidated interim financial statements in this Appendix 3 to the half-yearly financial report for the six months ended 31 December 2010 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity and related notes 1 to 11. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
26 January 2011

The directors are responsible for the maintenance and integrity of the corporate and financial information included in the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Appendix 4 – Non-GAAP measures (all continuing operations)

Reconciliation of operating profit to adjusted operating profit and adjusted EBITDA
for the half year ended 31 December 2010

	Notes	**2010/11 Half year £ million**	2009/10 Half year £ million
Operating profit		**491**	414
Living TV restructuring costs	3	**22**	-
Costs in relation to News Corporation proposal	3	**7**	-
Adjusted EBITDA		**677**	568
Depreciation and amortisation		**(157)**	(154)
Adjusted operating profit		**520**	414

Reconciliation of cash generated from operations to adjusted free cash flow
for the half year ended 31 December 2010

	Notes	**2010/11 Half year £ million**	2009/10 Half year £ million
Cash generated from operations	7	**799**	687
Interest received		**3**	2
Taxation paid		**(90)**	(101)
Dividends received from joint ventures and associates		**7**	8
Net funding to joint ventures and associates		**(3)**	(1)
Purchase of property, plant and equipment		**(103)**	(105)
Purchase of intangible assets		**(118)**	(93)
Interest paid		**(61)**	(89)
Free cash flow		**434**	308
Costs related to restructuring exercise		**5**	-
Living TV restructuring costs		**2**	-
Costs in relation to News Corporation proposal		**2**	-
Adjusted free cash flow		**443**	308

Analysis of movements in net debt

	As at 1 July 2010 £ million	Cash movements £ million	Non-cash movements £ million	**As at 31 December 2010 £ million**
Non-current borrowings	2,458	-	(68)	2,390
Debt	**2,458**	**-**	**(68)**	**2,390**
Borrowings-related derivative financial instruments	(333)	-	55	(278)
Cash and cash equivalents	(649)	(148)	-	(797)
Short-term deposits	(400)	30	-	(370)
Net debt	**1,076**	**(118)**	**(13)**	**945**