BRITISH SKY BROADCASTING GROUP PLC
Unaudited results for the six months ended 31 December 2011

CONTINUED GROWTH DELIVERING STRONG FINANCIAL RESULTS

	Adjusted results			Reported results		
Six months to 31 December	2011	2010	Variance	2011	2010	Variance
Revenue	£3,364m	£3,186m	+6%	£3,364m	£3,186m	+6%
EBITDA (2)	£772m	£677m	+14%	£803m	£648m	+24%
Operating profit (2)	£601m	£520m	+16%	£632m	£491m	+29%
Earnings per share (basic) (3)	24.0p	20.0p	+20%	25.3p	20.3p	+25%
Dividend per share	9.20p	8.74p	+5%	9.20p	8.74p	+5%

Excellent financial performance; strong growth across the board

- Revenue up 6% to £3.4 billion
- Highest ever first-half adjusted operating profit, up 16% to £601 million
- Efficiency programmes delivering lower operating costs; adjusted operating margin up 160 basis points to 17.9%
- Adjusted basic EPS up 20% to 24.0 pence
- Adjusted free cash flow up 12% to £495 million
- Interim dividend up 5% to 9.20 pence, in addition to the £750 million buy-back initiated on 29 November 2011

Continued growth in products and customers in the quarter

- Total net product growth of 772,000 to 26.8 million, up 13%
- Added 100,000 new households to reach 10.471 million customers
- Good response to price freeze; strong customer loyalty in a tough economic environment with churn of 9.6%
- Continued improvement in product mix with more than three million customers taking all three of TV, broadband and telephony, up by 26% year on year
- Customers responding to leading innovation with 2.5 million users of Sky Go to date

Strong set of plans for 2012

- Bringing more high quality content for Sky customers, including home grown comedy and drama and a new channel dedicated to Formula 1
- New agreements to add BBC iPlayer and ITV Player to Anytime+
- Free access to 10,000 WiFi hotspots to Sky Broadband Unlimited customers
- Fibre broadband available to c30% of UK households from April, offering up to 40Mb broadband speeds and truly unlimited usage for £20 a month
- Launching a new internet based pay TV service aimed at new customers
- Creating 1,300 Sky jobs across the UK and Ireland over the next two years

Results highlights

Customer Metrics (unaudited)

	As at 31-Dec-11	As at 31-Dec-10	Annual Growth	Quarterly Growth to 31-Dec-11
Total products ('000s)	**26,830**	**23,790**	**+3,040**	**+772**
TV	10,253	10,096	+157	+40
HD	4,063	3,497	+566	+138
Multiroom	2,350	2,219	+131	+55
Broadband	3,651	3,006	+645	+166
Telephony	3,407	2,757	+650	+159
Line rental	3,106	2,215	+891	+214
Total customers ('000s)	**10,471**	**10,150**	**+321**	**+100**
Products per customer	**2.6**	**2.3**	**+0.3**	
Other metrics				
Customers taking each of TV, broadband & talk	29%	24%	+5%	
ARPU (1)	£544	£536	+£8	
Churn (quarterly annualised)	9.6%	9.5%		

An additional KPI summary table containing further detailed disclosure may be found in Schedule 1.

Business Performance (2) (unaudited)

£'millions	6 months to 31 Dec-11	6 months to 31 Dec-10	Movement
Revenue	3,364	3,186	+6%
Adjusted operating profit	601	520	+16%
% Adjusted operating profit margin	*17.9%*	*16.3%*	+160 bps
Adjusted EBITDA	772	677	+14%
Adjusted free cash flow	495	443	+12%
Adjusted basic earnings per share (3)	24.0p	20.0p	+20%

[1] Quarterly annualised. Calculations have been restated to include customers taking standalone home communications products and to reflect the impact of the Sky magazine closure.

[2] A reconciliation of adjusted operating profit and adjusted EBITDA from continuing operations to reported measures as well as cash generated from continuing operations to adjusted free cash flow from continuing operations is set out in Appendix 3.

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

Jeremy Darroch, Chief Executive, commented:

"It has been a strong first half with progress on all fronts. While these are tough times for many consumers, our customers are staying loyal and more households continue to join us. From broadband to high definition, people are choosing Sky for a wider range of products than ever, underlining the transformation of our business over the last few years.

"Our approach to growth is working well. We're adding more value to the Sky subscription by investing where it matters most to customers, with more great entertainment and ground-breaking innovation like Sky Go. Alongside that, we're improving efficiency behind the scenes so we can expand margins at the same time. Financially, we've delivered another strong result, with our highest ever first-half operating profit and 20% growth in earnings per share. On the back of this, we're increasing the dividend again and have started our share buyback programme to increase returns for our shareholders.

"We expect the environment to remain tough in calendar 2012. No consumer business can be immune to these conditions and we will manage any short-term headwinds as they emerge. Staying focused on the long-term opportunity, we've got a strong set of plans to keep delivering for customers and shareholders. This will be an outstanding year on screen, including more original British productions and a new channel dedicated to Formula 1, and we have exciting products in the pipeline that will create more ways to access our content and more reasons to join and stay with us."

OVERVIEW

We have delivered a strong first half performance with good growth in customers and products and record financial results. We've continued to invest on screen and in bringing leading innovation to customers and, at the same time, maintained our focus on cost efficiency to deliver an overall reduction in other operating costs. This has translated into double-digit growth in operating profit, free cash flow and earnings per share and our highest operating margin for five years.

While household budgets remain under pressure, customers are choosing Sky over other providers and are spending more with us. Net product additions of 772,000 in the three months to 31 December 2011 ("the quarter") took the total base to 26.8 million, up by 13% year on year. Within that, we added 100,000 net new households and our focus on loyalty delivered a good performance in churn which, at 9.6%, was broadly level on the prior year.

We saw growth in every product category, with a particularly strong performance in home communications. As a result, customers are now taking an average of 2.6 products, up 13% on last year, and ARPU continues to rise, reaching a new high of £544.

Our operating performance is converting into strong and sustained financial results. We achieved revenue growth of 6%, at a time when we froze subscription prices for customers and absorbed headwinds in Sky business and advertising. We delivered our highest ever first half adjusted operating profit of £601 million, and further progress on costs delivered an increased adjusted profit margin which reached 17.9%. All of this was achieved alongside continued investment in the customer experience, with good financial discipline contributing to adjusted basic EPS growth of 20% and adjusted free cash flow growth of 12%.

The Directors have declared an interim dividend of 9.2 pence per share, representing an increase of 5% year on year, making this the eighth consecutive year of increased dividends for shareholders. As has been the case previously, we expect the final dividend payment to form the greater proportion of the total.

As we said in our 2011 Preliminary final results, our intention for the current and subsequent financial years is to maintain a policy of paying out around 50% of full year adjusted earnings as dividends. In addition, we have commenced our previously announced share buyback programme of £750 million, further increasing returns to shareholders.

OUTLOOK

We do not expect any material improvement in the macro backdrop in calendar 2012, with strong consumer headwinds anticipated in the early part of the year. While remaining cautious in respect of the economic outlook, we continue to expect that the strength and flexibility of our business will deliver further progress. Our growth will stay broadly-based, increasing product penetration and adding new households where it makes sense. We will also continue to invest in core areas for customers and we have a strong set of plans for the year ahead, including more great content, a strong product pipeline and the launch of an entirely new internet based pay TV service aimed at new customers. Alongside that, we will maintain our focus on operating efficiency because this underpins our ability to keep investing for customers. We believe this is the right approach to build a more valuable business and increase returns to shareholders over time.

OPERATIONAL REVIEW

Operational Performance

Our customer focus has once again delivered strong operating results in the quarter. In a difficult consumer environment, customers are increasingly recognising our great value by choosing Sky over other providers and taking more from us. We have maintained a consistent approach to growth in the quarter by growing broadly across our product range, focusing on adding high quality customers and building a loyal customer base.

We added 772,000 total net products in the quarter, growing the base by 13% year on year to reach a total of 26.8 million products. In an environment where customers are more cautious about making long-term financial commitments, we added 100,000 net new households in the quarter. While TV growth was lower year on year at 40,000, we compensated for this well with 60,000 new standalone home communications customers. Our total customer base reached almost 10.5 million, of which 218,000 are standalone home communications customers.

The second quarter performance completed a strong first half in which we added almost 1.5 million net products and saw continued growth in total customers, adding 177,000 net new households.

We have again delivered good growth in all product categories and customers are now taking an average of 2.6 products each, 13% higher year on year. Total HD customers reached four million, with 138,000 net additions in the quarter and another strong performance in home communications means we now have over three million customers who take each of TV, broadband and telephony, up 26% year on year.

As customers choose to take more from us, ARPU has grown to a new high of £544 and our customer focus has resulted in continued strong loyalty, with churn at 9.6%.

We continued to see strong take-up of home communications products as customers responded to our high quality, great value proposition. We added 166,000 broadband, 159,000 telephony and 214,000 line rental customers. At the same time we are improving the economics of our home communications business, migrating a further 277,000 customers to our fully unbundled network to reach 59% penetration of the broadband base.

Looking ahead, we plan to add to our broadband service in three ways; first, we'll extend our network footprint from 82% today to 88% of the UK by the end of 2013, making our great value broadband available to a further 1.4 million homes; second, we will launch our free WiFi service to Sky Broadband Unlimited customers in April, giving seamless access to our content on the move in 10,000 locations across the UK; third, from April we will extend our broadband line-up by adding a new fibre product for customers who want higher speeds. For £20 per month, customers will be able to access download speeds of up to 40Mb, with no usage caps and can pre-register their interest from today. Using BT's infrastructure, our fibre product will initially be available to just under 30% of UK households, with coverage set to grow over time. With this new addition to our product portfolio, we will provide customers with even more choice in home communications and, at the same time, make an attractive on-going return for our business.

As part of our on-going commitment to customers, we are also announcing today the creation of 1,300 Sky jobs across the UK and Ireland over the next two years, including the opening of a new service centre in Dublin. This forms part of an on-going programme to bring more of our customer service and installation workforce in house and ensure our own people deal with the most complex customer issues.

Content

We have had a strong quarter on screen, where we have continued to build on our traditional strengths in sports and movies, as well as delivering a step change in our entertainment channels.

In the second quarter, our increased investment in British comedy and drama has delivered success, with our key commissions performing strongly both in terms of customer response and critical acclaim. Viewing of our entertainment channels was up by 21% year on year in Sky homes, continuing our strong start to the fiscal year. The second season of 'An Idiot Abroad' delivered one of Sky 1's biggest ever audiences and we secured our first ever British Comedy Awards for 'Spy' and 'Victoria Wood's Angina Monologues'. The coming year will see us bring customers more great drama and we have made a strong start with our new adaptation of 'Treasure Island' delivering Sky 1's highest drama audience for four years. We will also continue to offer the best of US content with 'Mad Men', 'Luck' starring Dustin Hoffman and the second series of 'Game of Thrones'.

The quarter concluded a very successful calendar year in sport in which we broadcast more live events for Sky viewers than ever before. Our mobile sports content is proving increasingly popular with customers and with live mobile streaming via apps for smart phones and tablets, customers can access live action or updates in more ways than ever before. In combination with good growth in movie customers, we closed the half with our highest ever level of subscribers to our premium channels across all platforms. Looking ahead, we have a strong line-up for customers. In addition to our coverage of The Masters, the Ryder Cup and England cricket tours and home series, in March we will launch our dedicated Formula 1 (F1) channel, Sky Sports F1 HD, giving in-depth access to all 20 Grand Prix at no extra charge for Sky TV customers who subscribe to Sky Sports 1 and 2 or our HD pack.

New Products and Services

We continue to innovate to add value for customers. Building on the early success of Sky Go and Sky Anytime+, in 2012 we have major initiatives in the areas of portability, on demand content and companion devices.

Just five months after its launch, 2.5 million customers have used our Sky Go service to access a range of movies, sports and entertainment channels through PCs, laptops, X-boxes, smartphones and tablets. In November, we expanded the range of content available on the Sky Go mobile application with the launch of a constantly updating library of 600 on demand movie titles from all the major studios. As a result, Sky Go reached a new high of 1.5 million monthly unique users in December. Looking ahead, we will launch Sky Go on the Android platform in February, representing a base of five million devices in the UK. We also plan to expand the channel line-up on our Sky Go mobile service, starting with the addition of Sky Atlantic, closely followed by Sky 1, Sky Living and Sky Sports F1.

Sky Anytime+, our full on demand service, now has 1.2 million enabled customers. This quarter we have continued to add more content to the service, increasing the number of hours available as well as doubling the amount of HD content. As a result, usage is growing strongly, with weekly downloads increasing by 80% across the second quarter and a high proportion of viewing to movies. We also plan to increase distribution to all customers with a Sky+HD box, irrespective of their Internet Service Provider. As a result, we estimate the potential reach will grow to more than five million households.

Looking ahead to 2012, we'll add even more great content for customers. Today we are announcing an expansion to the range of high-quality content available on Sky Anytime+ following agreements with the BBC and ITV to add the BBC iPlayer and ITV Player to the service. From today, customers will be able to access archive content from ITV, including popular shows such as Prime Suspect, Lewis and Cold Feet. Seven day catch-up will join the service later this year with the addition of the BBC iPlayer and more ITV content. Archive BBC content - including the likes of Doctor Who, Outnumbered and Top Gear - is already available on Sky Anytime+ through Sky's existing deal with UK TV.

We are bringing together broadcast TV and the internet through a strategic partnership with zeebox, an innovative second screen consumer service provider. Launching in the first half of 2012, Sky and zeebox will offer a ground breaking companion app experience for Sky customers which provides unique augmented TV viewing features, such as connecting with friends around TV shows, finding more information about what's on TV, and buying products relating to their favourite programmes. From later this year, Sky customers will also be able to use a zeebox powered Sky app to access their Sky+ box on the move, so they can manage their Sky+ recording remotely, as well as using their iPhone or iPad as a remote control for their Sky box, creating a comprehensive and fully integrated companion TV experience.

Launch of new internet pay TV service in 2012

The rapid growth of broadband-connected devices is opening up new opportunities to retail our content directly to additional consumers.

Today we are announcing plans to launch a new service aimed at the 13 million UK households who don't currently subscribe to pay TV. Launching in the first half of calendar 2012, the service will be a new way to watch our content via broadband connected devices - on a PC, laptop, tablet, smartphone, games console or connected TV. It will offer instant access to Sky Movies on demand, with no dish and no contract, and customers will be able to pay monthly or rent a movie on a simple pay-as-you-go basis. The service will start by offering movies, but will soon expand to offer sport and entertainment as well.

Alongside the continued growth of our satellite platform and existing wholesale arrangements, this will be a new way for us to reach out to consumers who love great content, but may not want the full Sky service. With no need for significant infrastructure investment, the service will open up a new opportunity for customer growth and allow us to monetise our content more widely.

The Bigger Picture

As part of our commitment to making a positive contribution to life in the UK and Ireland, we delivered a number of initiatives this quarter through our Bigger Picture programme.

Through our partnership with British Cycling, which is aimed at improving participation in the sport, our pro cycling team 'Team Sky' finished second overall in the 2011 World Tour Rankings. We also welcomed Mark Cavendish, World Champion and winner of 20 Tour de France stages, to the team for 2012.

Our environmental leadership was recognised with Sky being placed amongst the leaders in the Environmental Tracking UK 100 Carbon Ranking Survey, and Sky Studios being awarded both the Efficient New Build Project and Judge's Supreme Award at the 2011 Energy Awards.

As part of our wider work with the Arts, our Sky Arts Ignition Series team have been touring the country to update 300 arts organisations and young artists on the Sky Arts Ignition and Futures Fund initiatives. We also announced the first two winners of the Sky Arts Ignition: Futures Fund; a programme providing bursaries for young artists each year.

The annual Bigger Picture Review 2011, reporting on our performance as a responsible business, was published online in October at the following address http://corporate.sky.com/thebiggerpicturereview2011/ .

FINANCIAL SUMMARY

We delivered a record financial performance in the six months to 31 December 2011 ("the period"). Good revenue growth and excellent progress on costs delivered 16% growth in adjusted operating profit and 20% growth in adjusted basic EPS. Efficiency programmes across the business have allowed us to reduce other operating costs year on year, more than offsetting the increased investment in programming to deliver our highest ever first half adjusted operating profit of £601 million and a 160 basis point improvement in adjusted operating margin to 17.9%.

Unless otherwise stated, all figures and growth rates included within the financial section exclude exceptional items and are from continuing operations.

Revenue

Group revenue increased by 6% to £3,364 million (2011: £3,186 million), with broadly based growth in both retail and wholesale operations offsetting headwinds in advertising and Sky business.

Retail subscription revenue was up by 5% to £2,764 million (2011: £2,638 million), benefiting from growth in customers and products and despite our decision to freeze subscription prices.

We saw a good performance in wholesale subscription revenue which increased by 13% to £170 million (2011: £151 million) as we continue to benefit from demand for our channels and their HD versions by subscribers to other platforms.

Advertising revenue was 6% lower year on year at £222 million (2011: £236 million), as a result of headwinds impacting the sector and higher payments to our third party media partners. During the period, we estimate the TV advertising market declined by 1% year on year, with our share falling slightly to 19.4% with free-to-air networks attracting a higher proportion of increased competitor spend during the quarter.

Installation, hardware and service revenue was lower year on year at £51 million (2011: £63 million), reflecting our introduction of a free service for customers moving home and fewer engineer visits as a result of our work to increase the reliability of set-top boxes.

Other revenue was 60% higher at £157 million (2011: £98 million). The increase includes £34 million from the sale of set-top boxes to Sky Italia, for which the corresponding cost is recognised in subscriber management and supply chain. Excluding the impact of the set-top box sales, other revenue was up by 26% benefiting from continued strong performance in Sky Bet and the inclusion of £11 million from the consolidation of 'The Cloud'.

Direct Costs

Programming costs increased by 5% to £1,109 million (2011: £1,058 million). Entertainment costs accounted for £37 million of the increase as a result of the anniversary effect of having a full six months of Sky Atlantic programming and further investment in original UK programming such as 'An Idiot Abroad 2', 'Strike Back Project Dawn' and 'Mount Pleasant'. Partner channel costs were £12 million higher as a result of having five additional third party HD channels and 16% growth in HD customers. Sports and movies costs were broadly level year on year.

Direct network costs increased by 25% to £336 million (2011: £269 million) due to increased scale in the business and the 27% growth in home communications products. Gross margin improved as a result of revenue growth and cost savings achieved as a greater proportion of customers are unbundled onto our own network.

Other Operating Costs

We have delivered another strong performance in our cost base, where efficiency programmes have contributed to a 2% reduction in other operating costs for the period to £1,318 million (2011: £1,339 million) and 280 basis points of margin improvement year on year.

Marketing costs fell by 12% to £541 million (2011: £613 million) as a result of fewer gross additions and less commission paid to third party retailers as a result of driving more acquisitions through online channels. We also reduced above-the-line advertising costs by £10 million year on year and achieved the expected savings from our decision to close the Sky customer magazine.

The per customer cost to acquire a TV subscriber ("SAC") increased £14 to £368 (2011: £354) reflecting a lower number of gross additions and the difficult consumer environment.

Subscriber management and supply chain costs increased by £37 million year on year. The largest contributor to the increase was the cost of sales of set-top boxes to Sky Italia, for which the corresponding revenue is recorded within other revenue and from which we both derive scale benefits and a small positive profit margin. Excluding the impact from these box sales, subscriber management and supply costs increased by 1% year on year.

Transmission, technology and fixed network costs were £5 million higher at £194 million (2011: £189 million) as a result of required technical support costs in our new Sky Studios and the increased running costs of an enlarged fixed network.

Growth in administration costs (excluding exceptional items) was held below the rate of revenue growth, increasing by 4% to £260 million (2011: £251 million). The increase reflects the inclusion of overhead costs relating to Sky Studios and the first time inclusion of costs relating to The Cloud.

Earnings

On an adjusted basis, profit before tax was £564 million (2011: £477 million) and included the Group's share of joint ventures and associates' profits of £17 million (2011: £17 million) and a net interest charge of £54 million (2011: £60 million).

Adjusted taxation was £146 million (2011: £129 million) resulting in an effective rate of 26% for the period. The adjusted tax charge on continuing operations for the year is expected to be around 25%, reflecting the reduction in the rate of UK Corporation Tax.

Adjusted profit for the period was £418 million (2011: £348 million), generating an adjusted basic earnings per share from continuing operations of 24.0 pence (2011: 20.0 pence).

Over the period the weighted average number of shares (excluding those held by the Employee Share Ownership Plan for the settlement of employee share awards) was 1,741 million and this is used for the purposes of calculating basic earnings per share (rather than the closing number of shares).

Cash Flow and Financial Position

Adjusted free cash flow increased by 12% to £495 million (2011: £443 million) reflecting 14% growth in adjusted EBITDA and improved working capital, offset by increases in capital expenditure and taxation. See Appendix 3 for details of adjusting items.

Capital expenditure of £237 million (2011: £221 million), was higher year on year as we accelerated our exchange rollout programme in the period, incurred costs of the technical fit-out of Sky Studios and invested in our new contact centres in Sheffield, Newcastle and Leeds.

Strong cash generation during the period has contributed to a reduction in net debt to £615 million. For a reconciliation of net debt see Appendix 3. The Group's liquidity and headroom remain comfortable with no bond redemptions falling due until October 2015. During the period, the Group renewed and extended its revolving credit facility of £743 million on more favourable terms. The entire amount remains, and is expected to remain, undrawn.

Exceptional Items

Reported operating profit of £632 million included the receipt of a £38.5 million break fee from News Corporation offset by £8 million of costs directly related to the News Corporation proposal.

Reported profit after tax of £441 million also included an exceptional gain of £7 million relating to the re-measurement of derivative financial instruments not qualifying for hedge accounting (2011: £19 million gain), a £5 million charge due to writing off the fees relating to the previous revolving credit facility and a £10 million charge relating to the tax effect on exceptional items.

Distribution to Shareholders

The Directors have declared an interim dividend of 9.2 pence per share. This represents an increase of 5% year on year and is the eighth consecutive year of increased dividend for shareholders. As previously stated, our intention is to maintain a policy of paying out 50% of full year adjusted earnings as dividends with the final dividend payments typically forming the higher proportion of the total dividend.

The ex-dividend date will be 28 March 2012 and the dividend will be paid on 24 April 2012 to shareholders of record on 30 March 2012.

The final dividend for 2010/11 financial year was paid to shareholders during the period, resulting in a total cash dividend payment in respect of the 2010/11 financial year of £405 million.

At the Company's AGM on 29 November 2011, Sky received approval to return £750 million of capital to shareholders via a share buy-back programme. Following approval and up to 31 December 2011, the Company repurchased for cancellation 11.7 million shares for a total consideration of £87 million. The closing share count at the end of the quarter was 1,741 million.

Schedule 1 – KPI Summary

All figures (000) unless stated	FY09/10				FY10/11				FY11/12	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Total Customers	**9,536**	**9,708**	**9,770**	**9,868**	**9,979**	**10,150**	**10,223**	**10,294**	**10,371**	**10,471**
Total Products	**18,444**	**19,609**	**20,549**	**21,597**	**22,586**	**23,790**	**24,591**	**25,375**	**26,058**	**26,830**
Television	9,536	9,708	9,770	9,860	9,956	10,096	10,147	10,187	10,213	10,253
Sky+HD	1,600	2,082	2,510	2,939	3,154	3,497	3,686	3,822	3,925	4,063
Multiroom	1,897	1,999	2,062	2,121	2,158	2,219	2,237	2,250	2,295	2,350
Broadband	2,303	2,404	2,505	2,624	2,802	3,006	3,161	3,335	3,485	3,651
Telephony	1,982	2,112	2,230	2,367	2,570	2,757	2,916	3,101	3,248	3,407
Line Rental	1,126	1,304	1,472	1,686	1,946	2,215	2,444	2,680	2,892	3,106
Other Metrics										
% of customers taking TV, Broadband and Talk	17%	18%	20%	21%	23%	24%	26%	27%	28%	29%
ARPU (£)	£466	£489	£499	£504	£510	£536	£537	£538	£535	£544
Churn – quarterly annualised	11.3%	9.6%	9.9%	10.5%	11.2%	9.5%	10.4%	10.4%	11.1%	9.6%
Fixed Network Metrics										
On-net base	2,020	2,103	2,187	2,288	2,450	2,659	2,856	3,045	3,205	3,403
MPF base	143	500	664	883	1,064	1,247	1,435	1,686	1,869	2,146
SMPF base	1,877	1,603	1,523	1,405	1,386	1,412	1,421	1,359	1,336	1,257
MPF %	7%	24%	30%	39%	43%	47%	50%	55%	58%	63%
SMPF %	93%	76%	70%	61%	57%	53%	50%	45%	42%	37%
Off-net base	283	301	318	336	352	347	305	290	280	248
Total Broadband	2,303	2,404	2,505	2,624	2,802	3,006	3,161	3,335	3,485	3,651
On-net %	88%	87%	87%	87%	87%	88%	90%	91%	92%	93%
New LLU exchanges	3	-	-	6	94	141	115	28	155	175
Total LLU exchanges	1,193	1,193	1,193	1,199	1,293	1,434	1,549	1,577	1,732	1,907

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 24 – 28 of the 2011 Annual Report (save for the additional risk relating to our exposure to the European financial crisis). 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 2011 Annual Report, the Competition Commission has provisionally found that the Group's control over Pay-TV movie rights in the United Kingdom is restricting competition between Pay-TV providers. It also issued a notice of possible remedies and in November 2011 it issued a notice of further possible remedies, each notice setting out possible actions which the Competition Commission may take to address its provisional findings. The Group has announced that it continues to believe that no regulatory intervention is required and that consumers benefit from high levels of choice, value and innovation across a wide range of providers and has noted that the Competition Commission's findings remain provisional and have been issued for consultation. According to its current administrative timetable, the Competition Commission expects to publish its final report in April/May 2012; its statutory deadline for completing its investigation is 3 August 2012.
- 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. In the 2011 Annual Report, we referred under this risk heading to Ofcom's launch in June 2011 of a review of TV advertising trading in the UK. Since the 2011 Annual Report, Ofcom has exercised its discretion not to refer TV advertising to the Competition Commission.
- 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. On 4 October 2011, the European Court of Justice ("ECJ") handed down its judgment in actions brought by the Premier League ("PL"), amongst others, against pubs using (and suppliers supplying) foreign decoder cards and boxes to view live PL football. The ECJ determined that restrictions in an agreement between PL and its Greek licensee, which obliged that broadcaster not to supply decoding devices to persons outside the licensed territory, are contrary to EU laws. The ECJ found that, although PL did not have copyright in the live coverage of its football matches, PL title sequences, logo, anthem and graphical elements did attract protection under the Copyright Directive. The High Court will now need to apply the ECJ's judgment to the facts of the cases before it.
- The Group generates wholesale revenue principally from one customer.
- The Group is subject to a number of medium and long-term obligations.

- The Group has some exposure to the European financial crisis although the Group's net euro cash flows are approximately 3% of total group revenues and the Group's practice is to hold less than £10 million on deposit in euros. Whilst some of the Group's syndicate banks are headquartered in Europe, the Group does not currently anticipate drawing the RCF. To mitigate remaining risks, counterparty credit and sovereign ratings are closely monitored, and no more than 10% of cash deposits are held with a single bank counterparty (with the exception of overnight deposits which are invested in a spread of AAA-rated liquidity funds).

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 36 – 37 of the 2011 Annual Report. At the Company's AGM on 29 November 2011, David Evans and Allan Leighton retired from the Board. On the same date, Martin Gilbert and Matthieu Pigasse were appointed to the Board as Independent Non-Executive Directors.

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 09:00 a.m. (GMT) today at Deutsche Bank, Great Winchester Street, London, EC2N 2DB. Participants should register by contacting Yasmin Charabati on +44 20 7251 3801 or at yasmin.charabati@RLMFinsbury.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. To register for this please contact Alexandra Sowinski at Taylor Rafferty on +1 212 889 4350. Alternatively you may register online at http://invite.taylor-rafferty.com/_bskyb/cc2012jan/Default.htm.

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 in relation to new products and services, revenue, profit, cash flow, product penetration, our broadband network footprint, content, wholesale and returns 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 highlighted 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 customers in the quarter, divided by the average number of residential customers in the quarter, annualised.
Churn	The number of total 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.
DSL	Digital Subscriber Line.
DTH	Direct-to-Home: the transmission of satellite services and functionality with reception through a mini dish. "DTH customer" means a subscriber to one or more of our retailed packages of television channels made available via DTH.
EBITDA	Earnings before joint ventures, interest, profit on disposal of available-for-sale investments, 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.
LLU	Local Loop Unbundling: a process by which BT's exchange lines are physically disconnected from BT's network and connected to other operators' networks. This enables operators other than BT to use the BT local loop to provide services to customers.
MPF	Metallic Path Facilities which occur where a single communications provider uses the local loop to provide both broadband and voice services over its network.
Multiroom	Installation of an additional set-top box in the household of a DTH customer.
Net debt	Borrowings net of cash and cash-equivalents, short-term deposits, and borrowings related derivative financial instruments.
Over-The-Top (OTT)	Delivery of a service via broadband which is agnostic of the internet service provider.
SMPF	Shared Metallic Path Facility.
Sky Go	Sky's retailed packages of television channels and on demand content made available via a broadband connection, including the version we made available to mobile devices via a wireless or 3G connection.
Sky Player	Sky's retailed packages of television channels and on demand content made available via a broadband connection and our Sky Player platform.
Sky$^+$	Sky's fully-integrated Personal Video Recorder (PVR) and satellite decoder. This includes Sky$^+$HD decoders.
Standalone home communications	Sky's retailed packages of broadband, talk and line rental when taken without a television subscription package.
TV customer	A paying subscriber to one or more of our DTH or Sky Go services.
Viewing share	Number of people viewing a channel as a percentage of total television viewing audience.

Appendix 2 - Condensed Consolidated Interim Financial Statements

Condensed Consolidated Income Statement for the half year ended 31 December 2011

	Notes	**2011/12 Half year £m**	2010/11 Half year £m
Continuing operations			
Revenue	2	**3,364**	3,186
Operating expense	3	**(2,732)**	(2,695)
EBITDA		**803**	648
Depreciation and amortisation		**(171)**	(157)
Operating profit		**632**	491
Share of results of joint ventures and associates		**17**	17
Investment income		**8**	4
Finance costs		**(60)**	(45)
Profit before tax		**597**	467
Taxation		**(156)**	(113)
Profit for the period from continuing operations		**441**	354
Discontinued operations			
Profit for the period from discontinued operations	4	**-**	53
Profit for the period		**441**	407
Earnings per share from profit for the period (in pence)			
Basic			
Continuing operations	5	**25.3p**	20.3p
Discontinued operations		**-**	3.0p
Total		**25.3p**	23.3p
Diluted			
Continuing operations	5	**25.2p**	20.2p
Discontinued operations		**-**	3.0p
Total		**25.2p**	23.2p
Adjusted earnings per share from adjusted profit for the period from continuing operations (in pence)			
Basic	5	**24.0p**	20.0p
Diluted	5	**23.8p**	19.8p

Condensed Consolidated Statement of Comprehensive Income for the half year ended 31 December 2011

	2011/12 Half year £m	2010/11 Half year £m
Profit for the period attributable to equity shareholders of the parent company	**441**	407
Other comprehensive income		
Amounts recognised directly in equity		
Exchange differences on translation of foreign operations	**4**	(3)
(Loss) gain on revaluation of available-for-sale investments	**(17)**	54
Gain (loss) on cash flow hedges	**92**	(55)
Tax on cash flow hedges	**(22)**	16
	57	12
Amounts reclassified and reported in the income statement		
(Loss) gain on cash flow hedges	**(30)**	15
Tax on cash flow hedges	**7**	(4)
Transfer to income statement on disposal of foreign operations	**-**	3
	(23)	14
Other comprehensive income for the period (net of tax)	**34**	26
Total comprehensive income for the period attributable to equity shareholders of the parent company	**475**	433

Condensed Consolidated Balance Sheet as at 31 December 2011

	31 December 2011 £m	31 December 2010 £m	30 June 2011 £m
Non-current assets			
Goodwill	**944**	916	944
Intangible assets	**489**	426	462
Property, plant and equipment	**939**	880	896
Investments in joint ventures and associates	**158**	159	151
Available-for-sale investments	**203**	237	215
Deferred tax assets	**24**	26	69
Trade and other receivables	**15**	14	13
Derivative financial assets	**386**	316	275
	3,158	2,974	3,025
Current assets			
Inventories	**845**	747	375
Trade and other receivables	**545**	551	592
Short-term deposits	**755**	370	430
Cash and cash equivalents	**709**	797	921
Derivative financial assets	**26**	33	11
	2,880	2,498	2,329
Total assets	**6,038**	5,472	5,354
Current liabilities			
Borrowings	**8**	8	8
Trade and other payables	**2,209**	1,999	1,675
Current tax liabilities	**179**	172	187
Provisions	**21**	20	21
Derivative financial liabilities	**3**	5	21
	2,420	2,204	1,912
Non-current liabilities			
Borrowings	**2,420**	2,382	2,325
Trade and other payables	**51**	31	26
Provisions	**10**	9	9
Derivative financial liabilities	**27**	25	47
	2,508	2,447	2,407
Total liabilities	**4,928**	4,651	4,319
Share capital	**870**	876	876
Share premium	**1,437**	1,437	1,437
Reserves	**(1,197)**	(1,492)	(1,278)
Total equity attributable to equity shareholders of the parent company	**1,110**	821	1,035
Total liabilities and shareholders' equity	**6,038**	5,472	5,354

Condensed Consolidated Cash Flow Statement for the half year ended 31 December 2011

	Notes	**2011/12 Half year £m**	2010/11 Half year £m
Continuing operations			
Cash flows from operating activities			
Cash generated from operations	7	**960**	799
Interest received		**7**	3
Taxation paid		**(142)**	(90)
Net cash from operating activities		**825**	712
Cash flows from investing activities			
Dividends received from joint ventures and associates		**16**	7
Net funding to joint ventures and associates		**(2)**	(3)
Purchase of property, plant and equipment		**(125)**	(103)
Purchase of intangible assets		**(112)**	(118)
Purchase of subsidiaries (net of cash and cash equivalents purchased)		**-**	(174)
Purchase of available-for-sale investments		**(1)**	-
Proceeds on disposal of property, plant and equipment		**-**	1
(Increase) decrease in short-term deposits		**(325)**	30
Net cash used in investing activities		**(549)**	(360)
Cash flows from financing activities			
Proceeds from disposal of shares in Employee Share Ownership Plan ("ESOP")		**3**	5
Purchase of own shares for ESOP		**(86)**	(16)
Purchase of own shares for cancellation		**(87)**	-
Interest paid		**(65)**	(61)
Dividends paid to shareholders		**(253)**	(201)
Net cash used in financing activities		**(488)**	(273)
Net (decrease) increase in cash and cash equivalents from continuing operations		**(212)**	79
Cash generated from discontinued operations	4	**-**	69
Cash and cash equivalents at the beginning of the period		**921**	649
Cash and cash equivalents at the end of the period		**709**	797

Condensed Consolidated Statement of Changes in Equity for the half year ended 31 December 2011

	Share capital £m	Share premium £m	ESOP reserve £m	Hedging reserve £m	Available-for-sale reserve £m	Other reserves £m	Retained earnings £m	Total shareholders' equity £m
At 30 June 2010	**876**	**1,437**	**(47)**	**77**	**98**	**362**	**(2,243)**	**560**
Profit for the period	-	-	-	-	-	-	407	407
Exchange differences on translation of foreign operations	-	-	-	-	-	(3)	-	(3)
Transfer to income statement on disposal of foreign operations	-	-	-	-	-	3	-	3
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**
Profit for the period	-	-	-	-	-	-	403	403
Exchange differences on translation of foreign operations	-	-	-	-	-	(5)	-	(5)
Transfer to income statement on disposal of foreign operations	-	-	-	-	-	1	-	1
Revaluation of available-for-sale investment	-	-	-	-	5	-	-	5
Recognition and transfer of cash flow hedges	-	-	-	(48)	-	-	-	(48)
Tax on items taken directly to equity	-	-	-	13	-	-	-	13
Total comprehensive income for the period	**-**	**-**	**-**	**(35)**	**5**	**(4)**	**403**	**369**
Share-based payment	-	-	(51)	-	-	-	39	(12)
Tax on items taken directly to equity	-	-	-	-	-	-	12	12
Purchase of non-controlling interest	-	-	-	-	-	-	(3)	(3)
Dividends	-	-	-	-	-	-	(152)	(152)
At 30 June 2011	**876**	**1,437**	**(107)**	**14**	**157**	**358**	**(1,700)**	**1,035**
Profit for the period	-	-	-	-	-	-	441	441
Exchange differences on translation of foreign operations	-	-	-	-	-	4	-	4
Revaluation of available-for-sale investment	-	-	-	-	(17)	-	-	(17)
Recognition and transfer of cash flow hedges	-	-	-	62	-	-	-	62
Tax on items taken directly to equity	-	-	-	(15)	-	-	-	(15)
Total comprehensive income for the period	**-**	**-**	**-**	**47**	**(17)**	**4**	**441**	**475**
Share-based payment	-	-	45	-	-	-	(95)	(50)
Tax on items taken directly to equity	-	-	-	-	-	-	(10)	(10)
Purchase of own equity shares for cancellation (see note 8)	(6)	-	-	-	-	6	(87)	(87)
Dividends	-	-	-	-	-	-	(253)	(253)
At 31 December 2011	**870**	**1,437**	**(62)**	**61**	**140**	**368**	**(1,704)**	**1,110**

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 2011 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 2011, 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 2011 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 2011 is extracted from the financial statements for that year. A copy of the statutory accounts has been delivered to the Registrar of Companies. The auditor's 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 2012, this date will be 1 July 2012, this being a 52 week year (fiscal year 2011: 3 July 2011, 53 week year). The condensed consolidated interim financial statements are based on the 26 weeks ended 1 January 2012 (fiscal year 2011: 26 weeks ended 26 December 2010). 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 48 of the 2011 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, the share buy-back 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

	2011/12 Half year £m	2010/11 Half year £m
Continuing operations		
Retail subscription	**2,764**	2,638
Wholesale subscription	**170**	151
Advertising	**222**	236
Installation, hardware and service	**51**	63
Other	**157**	98
	3,364	3,186

To provide a more relevant presentation, management has reclassified Sky Player and Sky Mobile revenue of £6 million in the current period and £7 million in the comparative period from other revenue to retail subscription revenue.

3 Operating expense

	2011/12 Half year £m	2010/11 Half year £m
Continuing operations		
Programming	**1,109**	1,058
Direct networks	**336**	269
Transmission, technology and fixed networks	**194**	189
Marketing	**541**	613
Subscriber management and supply chain	**323**	286
Administration(i)	**229**	280
	2,732	2,695

(i) Included within administration costs for the period ended 31 December 2011 is a credit of £31 million in relation to the News Corporation proposal consisting of costs incurred offset by the receipt of the break fee (see note 10). 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"). The Group retained 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 were treated as discontinued for the six months ended 31 December 2010. 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.

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

	2011/12 Half year £m	2010/11 Half year £m
Revenue	**-**	32
Operating expense	**-**	(34)
Operating loss	**-**	(2)
Profit on disposal	**-**	63
Profit before tax	**-**	61
Attributable tax expense	**-**	(8)
Profit for the period from discontinued operations	**-**	53

During the prior period, cash flows attributable to Easynet comprised a net operating cash outflow of £7 million and a net cash inflow in respect of investing activities of £76 million.

5 Earnings per share

The weighted average number of ordinary shares for the period was:

	2011/12 Half year Millions of shares	2010/11 Half year Millions of shares
Ordinary shares	**1,752**	1,753
ESOP trust ordinary shares	**(11)**	(9)
Basic shares	**1,741**	1,744
Dilutive ordinary shares from share options	**12**	10
Diluted shares	**1,753**	1,754

The calculation of diluted earnings per share excludes less than 1 million share options (2011: 3 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 for the period into the weighted average number of shares for the period. In order to provide a measure of underlying performance, management has 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.

	2011/12 Half year £m	2010/11 Half year £m
Reconciliation from profit for the period from continuing operations to adjusted profit for the period from continuing operations		
Profit for the period from continuing operations	**441**	354
(Net recovery of) costs in relation to News Corporation proposal (see note 3)	**(31)**	7
Living TV restructuring costs (see note 3)	**-**	22
Revolving Credit Facility fee write off (see note 9b)	**5**	-
Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness	**(7)**	(19)
Tax credit on settlement of liability	**-**	(15)
Tax effect of above items	**10**	(1)
Adjusted profit for the period from continuing operations	**418**	348

6 Dividends

	2011/12 Half year £m	2010/11 Half year £m	2010/11 Full year £m
Dividends declared and paid during the period			
2010 Final dividend paid: 11.525p per ordinary share	**-**	201	201
2011 Interim dividend paid: 8.74p per ordinary share	**-**	-	152
2011 Final dividend paid: 14.54p per ordinary share	**253**	-	-
	253	201	353

The proposed 2012 interim dividend is 9.20 pence per ordinary share being £159 million. The dividend was not declared at the balance sheet date and is therefore not recognised as a liability as at 31 December 2011.

7 Notes to the Condensed Consolidated Cash Flow Statement

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

	2011/12 Half year £m	2010/11 Half year £m
Profit before taxation	**597**	467
Depreciation and impairment of property, plant and equipment	**85**	80
Amortisation and impairment of intangible assets	**86**	77
Share-based payment expense	**32**	34
Net finance costs	**52**	41
Share of results of joint ventures and associates	**(17)**	(17)
	835	682
Decrease (increase) in trade and other receivables	**49**	(27)
Increase in inventories	**(470)**	(365)
Increase in trade and other payables	**549**	519
Increase (decrease) in provisions	**1**	(8)
Increase in derivative financial instruments	**(4)**	(2)
Cash generated from continuing operations	**960**	799

8 Shareholders' equity

Purchase of own equity shares for cancellation

On 29 November 2011, the Company's shareholders approved a resolution at the AGM for the Company to return £750 million of capital to shareholders via a share buy-back programme.

The Company has entered into an agreement with News Corporation under which, following any market purchases of shares by the Company, News Corporation will sell to the Company sufficient shares to maintain its percentage shareholding at the same level as applied prior to those market purchases. The price payable to News Corporation is the price payable by the Company in respect of the relevant market purchases. The effect of the agreement is to provide that there will be no change in News Corporation's economic or voting interests in the Company as a result of the share buy-back programme.

During the period, the Company purchased, and subsequently cancelled, 11,716,727 ordinary shares at an average price of £7.37 per share, with a nominal value of £6 million, for a consideration of £87 million. Consideration included stamp duty and commission of less than £1 million. This represents 1% of called-up share capital at the beginning of the period. Of these purchases, the Company purchased, and subsequently cancelled, 4,585,659 ordinary shares from News Corporation at an average price of £7.37 per share, with a nominal value of £2 million, for a consideration of £34 million. Consideration included stamp duty of less than £1 million.

9 Other matters

a) 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 £37 million (2011: half year: £42 million; full year: £38 million).

b) Revolving Credit Facility

On 3 November 2011, the Group re-financed the existing £750 million Revolving Credit Facility with a £743 million facility due to mature on 31 October 2016, syndicated across 10 counterparty banks. At 31 December 2011, the RCF was undrawn (2011: half year: undrawn; full year: undrawn).

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:

	2011/12 Half year £m	2010/11 Half year £m	2010/11 Full year £m
Supply of services by the Group	**48**	16	49
Purchases of goods or services by the Group	**(97)**	(95)	(216)
Amounts owed by News Corporation to the Group	**5**	2	10
Amounts owed to News Corporation by the Group	**(111)**	(74)	(69)

At 31 December 2011 the Group had expenditure commitments of £640 million (2011: half year: £646 million; full year: £567 million) with News Corporation companies of which £144 million (2011: half year: £104 million; full year: £76 million) related to minimum television programming rights commitments and £496 million (2011: half year: £542 million; full year: £491 million) related to expected ongoing smartcard costs.

Services supplied to News Corporation

During the current period, the Group supplied programming, airtime, transmission, marketing, consultancy services and set-top boxes to News Corporation.

Purchases of goods and services and certain other relationships with News Corporation

During the current period, the Group purchased programming, digital equipment, smartcards and encryption services, set-top box technologies, advertising, IT services and rental premises from News Corporation companies.

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 13 July 2011, News Corporation announced that it no longer intended to make an offer for the entire issued and to be issued share capital of the Company not already owned by News Corporation. A break fee of £39 million was received during the period which exceeded all of the Group's direct costs associated with the proposal.

Share buy-back programme

During the period, the Company purchased, and subsequently cancelled, 4,585,659 ordinary shares held by News Corporation as part of its share buy-back programme. For further details, see note 8.

b) Joint ventures and associates

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below.

	2011/12 Half year £m	2010/11 Half year £m	2010/11 Full year £m
Supply of services by the Group	**11**	10	23
Purchases of goods or services by the Group	**(34)**	(29)	(57)
Amounts owed by joint ventures and associates to the Group	**23**	30	26
Amounts owed to joint ventures and associates by the Group	**(10)**	(4)	(5)

Services supplied are primarily the provision of transponder capacity, marketing, airtime sales and support services. Purchases represent fees payable for channel carriage. Amounts owed by joint ventures and associates include £15 million (2011: half year: £20 million; full year: £19 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 £16 million (2011: half year: £20 million; full year: £20 million).

10 Transactions with related parties and major shareholders (continued)

b) Joint ventures and associates (continued)

The Group took out a number of forward exchange contracts with counterparty banks during the period on behalf of the joint venture Sky News Arabia FZ-LLC. On the same dates as these forward contracts were entered into, the Group entered into equal and opposite contracts with Sky News Arabia FZ-LLC 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 with the joint venture AETN UK and Sky News Arabia FZ-LLC that had not matured as at 31 December 2011 was £3 million (2011: half year: £2 million; full year: £2 million).

During the current period, US$11 million (2011: half year: less than US$1 million) was received from the joint ventures upon maturity of forward exchange contracts and US$2 million (2011: half year: US$2 million) was paid to the joint ventures upon maturity of forward exchange contracts.

During the current period, £1 million (2011: half year: £1 million) was received from the joint ventures upon maturity of forward exchange contracts and £6 million (2011: half year: £1 million) was paid to the joint ventures upon maturity of forward exchange contracts.

During the current period, €nil (2011: half year: €1 million) was received from the joint ventures upon maturity of forward exchange contracts and €1 million (2011: half year: €nil) was paid to the joint ventures upon maturity of forward exchange contracts.

At 31 December 2011 the Group had minimum expenditure commitments of £7 million (2011: half year: £4 million; full year: £3 million) with its joint ventures and associates.

c) Other transactions with related parties

A close family member of one Director of the Company runs 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 amounting to less than £1 million with Freud (2011: half year: £1 million). At 31 December 2011, there were amounts of less than £1 million owed to Freud (2011: half year: £nil; full year: £1 million).

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. These do not meet the definition of Related Party Transactions.

d) Key management

The Group has a related party relationship with the Directors of the Group. At 31 December 2011, there were 14 (2011: half year: 14; full year: 14) members of key management, all of whom were Directors of the Company. Key management compensation is provided below:

	2011/12 Half year £m	2010/11 Half year £m	2010/11 Full year £m
Short-term employee benefits	**3**	3	5
Share-based payments	**4**	3	6
	7	6	11

Post-employment benefits were less than £1 million in each period.

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 2 to the half-yearly financial report for the six months ended 31 December 2011 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 10. 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 2011 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 Auditor
London, United Kingdom
30 January 2012

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 3 – Non-GAAP measures (all continuing operations)

Reconciliation of operating profit to adjusted operating profit and adjusted EBITDA
for the half year ended 31 December 2011

	2011/12 Half year £m	2010/11 Half year £m
Operating profit	**632**	491
(Net recovery of) costs in relation to News Corporation proposal	**(31)**	7
Living TV restructuring costs	**-**	22
Adjusted EBITDA	**772**	677
Depreciation and amortisation	**(171)**	(157)
Adjusted operating profit	**601**	520

Reconciliation of cash generated from operations to adjusted free cash flow
for the half year ended 31 December 2011

	2011/12 Half year £m	2010/11 Half year £m
Cash generated from operations	**960**	799
Interest received	**7**	3
Taxation paid	**(142)**	(90)
Dividends received from joint ventures and associates	**16**	7
Net funding to joint ventures and associates	**(2)**	(3)
Purchase of property, plant and equipment	**(125)**	(103)
Purchase of intangible assets	**(112)**	(118)
Interest paid	**(65)**	(61)
Free cash flow	**537**	434
(Net recovery of) costs in relation to News Corporation proposal	**(17)**	2
Recovery of import duty on set-top boxes (after corporation tax)	**(25)**	-
Living TV restructuring costs	**-**	2
Costs relating to restructuring exercise	**-**	5
Adjusted free cash flow	**495**	443

Analysis of movements in net debt

	As at 1 July 2011 £m	Cash movements £m	Non-cash movements £m	**As at 31 December 2011 £m**
Current borrowings	8	-	-	8
Non-current borrowings	2,325	-	95	2,420
Debt	**2,333**	**-**	**95**	**2,428**
Borrowings-related derivative financial instruments	(232)	-	(117)	(349)
Cash and cash equivalents	(921)	212	-	(709)
Short-term deposits	(430)	(325)	-	(755)
Net debt	**750**	**(113)**	**(22)**	**615**