



BRITISH SKY BROADCASTING GROUP PLC
Unaudited results for the six months ended 31 December 2013

Half year	Adjusted results ¹			Statutory results		
	2013/14	2012/13	Variance	2013/14	2012/13	Variance
Revenue ¹	£3,751m	£3,487m	+7.6%	£3,757m	£3,533m	+6.3%
EBITDA	£813m	£813m	0%	£794m	£845m	-6.0%
Operating profit	£595m	£647m	-8.0%	£565m	£679m	-16.8%
Earnings per share (basic)	27.3p	28.3p	-3.5%	26.2p	29.7p	-11.8%
Dividend per share	12.0p	11.0p	+9.1%	12.0p	11.0p	+9.1%

STRONG FIRST HALF WITH EXCELLENT GROWTH

Growth in paid-for products up 42% year on year

- 873,000 new paid-for subscription products in Q2
- High Definition and Broadband now in 5 million homes
- 36% of customers now take triple play, 534,000 more than a year ago

Leading in connected TV growth; investment driving returns

- Record growth in connected Sky+HD boxes, up 1 million in Q2 to 4.4 million
- Threefold increase in On Demand usage
- Sky Store transactional revenues up 100%

Extending leadership in content across all genres

- Major new partnership with HBO
- Landmark deal with ITV to include new drama channel exclusive to Sky
- Record audiences for new UK commissioned drama
- Sky Sports viewing at highest level for 6 years

Good financial performance in line with expectations

- Adjusted revenue¹ up 8% to £3,751 million
- Adjusted EBITDA flat at £813 million despite investment in connected TV services and one-off step up in Premier League costs
- Adjusted basic earnings per share down 3.5% to 27.3 pence
- Interim dividend up 9% to 12.0 pence

¹ Adjusted revenue as presented here is from recurring activities. It excludes revenues earned from the discontinued retailing of the ESPN channel in the current and prior periods. The current period includes the consolidation of revenues from former Q2 broadband customers.

Jeremy Darroch, Chief Executive, commented:

“We had a very good first six months of the year as we reaped the benefits of our broader-based approach to growth. In a consumer environment that remains challenging, customers continued to choose to take Sky products in ever greater numbers in the run-up to Christmas, with Q2 growth up by over 40% on last year. In the last 12 months, we have added 3.8 million paid-for subscription products, the fastest rate of annual growth in three years.

“Customer demand in Q2 was strong across the board with good growth in all products. In a good quarter for TV growth, HD passed the milestone of 5 million customers, boosted by the success of our autumn advertising campaign with Joanna Lumley. Home communications also did well as customers continued to respond to the market-leading quality and value that Sky offers. Total sales of home communications products increased 4% year on year in the first half.

“The investments we are making to accelerate growth in connected TV services are delivering excellent results. We added a record 1 million connected Sky+HD boxes in Q2 – almost 11,000 a day – to take our base of connected homes to 4.4 million. This explosive growth means that Sky has quickly established itself as Britain’s biggest connected TV platform and, with millions of customers yet to connect their boxes, there is still a big opportunity ahead.

“Everything that we see tells us that customers love the benefits that come with the connected box. On Demand usage more than trebled year on year and the number of movie rentals through Sky Store doubled as customers responded to greater flexibility and choice. More customers than ever are choosing Sky Go to watch content both in and out of the home, helped by the addition of 14 new entertainment channels and the launch of Sky Go on more connected devices. We continue to see significant opportunity for accelerated growth and returns as we use our innovation to differentiate our offering and give Sky customers the best ways to enjoy our content.

“We have further strengthened our market-leading content offering through significant new partnerships. An expanded partnership with HBO will see the two companies work together to co-produce major new cinematic drama series while Sky Atlantic remains the exclusive home of HBO programmes until 2020. In addition, a landmark new deal with ITV means there will be no better place to enjoy ITV on multiple devices, both at home and on the go.

“Our financial performance was strong in the first half and we remain on track for the full year. Good operating momentum led to an 8% increase in revenues for the period, excluding revenues from the discontinued retailing of ESPN. We are moving through a year of investment in which we are absorbing the one-off step up in Premier League costs well, with adjusted EBITDA flat thanks to a continued focus on operating efficiency. The 9% increase in the interim dividend to 12.0 pence, the tenth consecutive year of growth, reflects our confidence in the strength of our business and the progress we are making.”

Results Highlights

Customer Metrics (unaudited)

	As at 31-Dec-13	As at 31-Dec-12	Annual Growth	Quarterly Growth to 31-Dec-13
Total paid-for products ('000s)	33,307	29,513	+3,794	+873
TV	10,536	10,358	+178	+77
HD	5,005	4,561	+444	+112
Multiroom	2,528	2,467	+61	+25
Sky Go Extra	643	-	+643	+258
Broadband	5,127	4,235	+892	+110
Telephony	4,792	4,022	+770	+140
Line rental	4,676	3,870	+806	+151
Paid-for products per retail customer	2.9	2.7		
New connected TV services ('000s)				
Internet-connected Sky+HD boxes	4,352	1,715	+2,637	+1,001
Sky Go unique users	3,314	3,066	+248	+23
Other metrics				
Total Customers ('000s)	14,954	14,493	+461	+113
Retail Customers	11,330	10,742	+588	+106
Wholesale Customers ⁽¹⁾	3,624	3,751	-127	+7
ARPU ⁽²⁾	£570	£558	+£12	+£11
Triple-play	36%	33%	+3%	-
Churn ⁽³⁾	10.8%	10.3%	+0.5%	-0.2%

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

Business Performance ⁽⁴⁾ (unaudited)

£'millions	6 months to 31-Dec-13	6 months to 31-Dec-12	Movement
Adjusted revenue ⁽⁵⁾	3,751	3,487	+7.6%
Adjusted EBITDA	813	813	0%
% Adjusted EBITDA profit margin	21.6%	23.0%	-1.4%
Adjusted operating profit	595	647	-8.0%
Adjusted profit before tax	554	610	-9.2%
Adjusted basic earnings per share ⁽⁶⁾	27.3p	28.3p	-3.5%

¹ Wholesale customers taking at least one paid-for Sky channel. The customer numbers are as reported to us at November 2013.

² Quarterly annualised. Excluding revenues earned from retailing the ESPN channel.

³ Quarterly annualised.

⁴ A reconciliation of adjusted EBITDA, adjusted operating profit and adjusted profit before tax to statutory measures is set out in Appendix 2.

⁵ Adjusted revenue as presented here is from recurring activities. It excludes revenues earned from the discontinued retailing of the ESPN channel in the current and prior periods. The current period includes the consolidation of revenues from former O2 broadband customers.

⁶ Adjusted basic earnings per share is calculated from adjusted profit for the period. A reconciliation of statutory profit to adjusted profit is set out in note 4 to the consolidated financial information.

SUMMARY OF OPERATIONAL AND FINANCIAL PERFORMANCE

We delivered another very strong performance in the first half of the year, further enhancing our position as Britain and Ireland's favourite home entertainment and communications provider. In the second quarter, we built on the strong momentum of Q1 to deliver the fastest rate of organic growth in paid-for subscription products in seven quarters.

Strong customer demand drove an increase of 873,000 paid-for subscription products in the three months ended 31 December 2013, 42% higher than the same period last year. TV products saw the highest quarterly growth for three years, boosted by a strong performance from HD. In all, we added 112,000 new HD customers, taking our total HD base past the five million milestone. Sky Go Extra, our paid-for mobile TV service, also grew well with 258,000 net new additions in the quarter. This took the total base to 643,000, less than one year after launch.

The growth of NOW TV was supported by a positive customer response to our new low-cost NOW TV box, which we started to market in the autumn. In addition, we achieved the highest sales of NOW TV's sports day pass in Q2 on 10 November, featuring Sky Sports' live coverage of Manchester United versus Arsenal in the Premier League.

Home communications continued to perform well. We added 110,000 net new broadband customers in Q2 to take the base to 5.1 million, cementing our position as number 2 in the broadband sector. At the same time, we added 140,000 new products in telephony and 151,000 in line rental. In all, 36% of our customer base take all three of TV, broadband and telephony from Sky, 534,000 more than a year ago.

We ended Q2 with 11.3 million retail customers, net growth of 106,000, 20% higher year on year. Strong growth across all our products contributed to a £12 year on year increase in ARPU to £570. Churn for the quarter was 10.8%.

Our continued operating momentum drove an 8% rise in adjusted revenue to £3,751 million. Adjusted EBITDA was flat while adjusted operating profit was down 8% and adjusted basic earnings per share were down 3.5% to 27.3 pence. This reflects the previously announced one-time step-up in Premier League costs and our investments to accelerate take-up and usage of connected TV services. We remain on track with our plans for the year.

On the back of the strong operating growth, the Board has declared an interim dividend of 12.0 pence per share, an increase of 9% year on year and the tenth consecutive year of growth.

Content

We have further extended our market-leading content offering with a good performance across our channel portfolio. As an indication of the growing breadth and quality of our on-screen offering, the number of shows on Sky's entertainment channels attracting audiences over 1 million increased by more than 25% in the first half against the same period last year and has more than doubled over a three-year period.

Today, we have announced a major new partnership with HBO which will build on the success of Sky Atlantic, rated by customers as one of their top three must-have pay channels. Under the terms of the new agreement, Sky and HBO will co-produce major new cinematic drama series for broadcast both on Sky Atlantic and on HBO's networks in Europe and the US. In addition, an extension to our content output deal ensures that Sky remains the exclusive home of HBO programmes in Britain and Ireland for the next six years.

The extended output deal means that new HBO programmes - including the much-anticipated drama *True Detective* starring Woody Harrelson and Matthew McConaughey - will premiere exclusively on Sky Atlantic along with the return of award-winning shows such as *Game of Thrones* and *Girls*. As part of the deal, Sky customers will enjoy extended access to HBO content on demand and on the go.

Earlier this week, we also announced a broad new partnership with ITV, the UK's largest commercial broadcaster. The deal will give Sky customers unrivalled access to ITV programming including a brand new pay TV channel, ITV Encore. As part of the long-term agreement, ITV's content will be made available across the entire range of Sky's digital and connected platforms, including Sky Go, NOW TV and Sky Store, where it will help to drive transactional revenues.

ITV Encore, ITV's first brand new channel launch in eight years, will initially be available exclusively on the Sky platform, serving as the home of some of ITV's most successful dramas. ITV will also commission new pay-only dramas for the new channel which will hit screens from 2015 onwards. This will make Sky the best place to enjoy ITV content, further strengthening our entertainment offering and helping us reach into new segments of the market. Available to all Sky TV customers at no extra charge, ITV Encore will also increase value for existing customers.

These new channel partnerships reinforce Sky's commitment to bring our customers new and distinctive content. On our own channels, our big push on drama in the run-up to Christmas brought success with the launch episodes of *Yonderland*, *Moonfleet* and *Dracula* all attracting more than one million viewers. *The Tunnel*, our Anglo-French crime drama, has been the most successful original commission for Sky Atlantic and *Dracula*, our co-production with NBC, was the most successful original scripted commission for Sky Living. We have also seen good success with US-acquired content with *The Blacklist*, starring James Spader on Sky Living, one of the stand-out hits in the run-up to Christmas. Looking forward, we have more than 100 hours of drama and comedy in production including *Fortitude* and *Critical*, two large-scale dramas with world-class casting.

Sky Movies enjoyed a strong first half with viewing up 3% with much of that performance being driven by strong growth in non-linear viewing. Movie downloads via our On Demand service grew by 111% over the Christmas period, with *Arthur Christmas* the top-performing title.

Share of viewing to Sky Sports hit its highest level for six years in the first half, for the first time out-rating BBC2, Five and Channel 4 in Sky homes. This represented a 5% increase on last year, despite the Ryder Cup benefitting viewing in 2012. Within this, our coverage of the Premier League performed very well. Average audiences over our 59 exclusively live games to the end of December were up 7% year on year with Manchester United versus Arsenal recording the largest audience of the season, with a peak of 3.2 million and a further 302,000 watching on Sky Go. In addition, audiences for England's Autumn Rugby Union Internationals were up 13% on last year, including a record audience for an England Rugby Union fixture on Sky, for England vs New Zealand.

We have also signed new long-term rights agreements across six sports, including Super League, British and Irish Lions Rugby Union, England overseas international cricket, Scottish Football, WWE wrestling and Elite League Speedway.

At the same time as enhancing our on-screen offering for customers, we have continued to keep content costs under control. Excluding the one-time impact associated with the first year of the new Premier League agreement and the discontinuation of ESPN carriage, programming costs were up only 1% year on year across the portfolio.

Connected TV Services

Our innovation in connecting our Sky+ HD box platform has led to Sky rapidly becoming Britain and Ireland's biggest connected TV platform. It also highlights, once again, our clear lead over competitor platforms. We have seen positive benefits from higher customer satisfaction and advocacy from those customers with a connected Sky+HD box relative to the overall base. Meanwhile, investment in expanding our On Demand service and raising awareness of its benefits is driving upsell to higher-tier packages, especially Entertainment Extra Plus. We have also seen strong growth in Sky Store activity with revenues from movie rentals doubling in Q2 year on year thanks to strong demand for titles such as *Elysium*, *Despicable Me 2* and *The Hangover Part III*.

This increased connectivity in customers' homes is accelerating growth in take-up and usage of our connected TV services:

- We grew the number of Sky+HD connected homes by a record one million in the three months ended 31 December 2013. This means that 4.4 million of our TV customers now have a connected Sky+HD box, up more than 100% year on year.
- We extended the range of channels and programming available On Demand, launching 12 new channels on Catch Up TV in Q2 to take the total to 56. We also continued to enhance our Box Sets service, an exclusive benefit for HD and Entertainment Extra Plus customers, with hundreds of hours of new content, including exclusive titles such as *Game of Thrones* and *The Sopranos*.

- The combination of increased connectivity and an improved range of content drove a threefold increase in On Demand usage to hit an average weekly download rate of 10.9 million over the quarter. This peaked in the Christmas week to an all-time high of 12.4 million downloads with a significant growth in usage across all our pay content.
- Sky Go extended its leadership in mobile TV with the addition of 14 new channels in the quarter to take the number of channels on the service to a market-leading total of 57. We also expanded the availability of Sky Go in the quarter with the launch of the service on Android tablets in early December.
- Usage of Sky Go also hit a number of new records in the quarter. Total viewing requests for the quarter surpassed 200 million for the first time, with On Demand usage driving the majority of that growth, rising by 56% year on year. Live entertainment viewing over Sky Go also reached a new high in the Christmas week with *An Idiot Abroad* and *Strike Back* proving to be the most popular shows. Additionally, Sky Movies viewing set a new record since launch with top-performing titles including *Iron Man 3* and *Wreck-It Ralph*.

Customer Service

We took some important steps forward in developing our market-leading service capability in the second quarter. We are the clear leader in the triple play sector with the highest satisfaction scores and lowest number of complaints according to latest Ofcom customer satisfaction and complaints surveys, and our net promoter score, our key internal measure of performance, reached an all-time high. We successfully completed the transfer of around 700 AVC engineers to Sky in October, meaning that all UK service visits are now completed by Sky people with an immediate positive impact on the customer experience. It also drove further reductions in the number of service visits, now at their lowest level in ten years, and a halving in the number of install revisits.

Broader Contribution

In November, we launched Sky Academy, a ground-breaking set of initiatives to support the under-25s, the generation born since Sky's launch in 1989. Our ambition is to create opportunities for up to one million young people by 2020, inspiring them, helping them to build skills and experience, and nurturing future talent.

Headquartered in a brand new building at the heart of our campus, Sky Academy will bring together established initiatives, such as the award-winning Sky Sports Living for Sport, with a range of exciting new experiences. These include: three more Skills Studios in Livingston, Leeds and Dublin, which build on the successful London Studio which was opened in 2013; scholarship schemes to provide mentoring and financial support for emerging talent in sport, arts and television; and a comprehensive range of work experience and employment opportunities at Sky for secondary school students through to graduates, which will double in size over the next three years.

Financial Strength

Sky begins calendar 2014 in a strong position financially, on track and moving through the investment cycle well. The Group's liquidity and cash position remains healthy with average maturity on debt of 7 years. During calendar 2013, Sky returned a total of £769 million to shareholders in the form of dividends and buybacks while maintaining our leverage at around 1.1 times net debt/ EBITDA. We are proposing a 9% increase in the interim dividend to 12.0p and, alongside this, we have £434 million remaining of the £500 million buyback mandate approved by shareholders at the 2013 AGM.

DETAILED FINANCIAL PERFORMANCE

We delivered a good financial performance in the first half of what is a year of investment in the customer proposition. We saw first half revenue growth of 8% after adjusting for the loss of ESPN revenue, adjusted operating profit was down 8% and adjusted basic earnings per share were down 4%, in line with our expectations. Adjusting items are discussed on page 29.

Unless otherwise stated, all figures and growth rates below exclude adjusting items.

Revenue

Group revenue increased by 8% to £3,751 million (2013: £3,487 million) after adjusting for the loss of ESPN revenue, with strong growth in both our retail and commercial businesses. Our revenue grew 6% on a statutory basis.

Retail subscription revenue grew by 8% to £3,078 million (2013: £2,861 million) after adjusting for £6 million ESPN revenue (2013: £46 million), reflecting the continued strong product and customer growth, the September price rise and 46% growth in our transactional revenues to £35 million. Within this, we began to see growth in the contribution from our new connected services investment with Sky Store revenues growing by 100% to £14 million (2013: £7 million) – equivalent to £28 million per annum already.

Our commercial businesses continued the improvement seen in the first quarter. Advertising revenue was up 7% to £231 million (2013: £215 million) helped by the post-Olympics increase in the advertising market and an increase in Sky's share of the advertising market, while we also saw a first-time contribution from our newly launched AdSmart product. Wholesale subscription revenue increased by 2% to £198 million (2013: £194 million).

Other revenue increased by 21% to £206 million (2013: £170 million) with continued strong performance from Sky Bet which saw unique users up 15%, driving revenues up 27% to £84 million (2013: £66 million).

Direct Costs

Excluding the one-off £108 million step up in the new Premier League deal and the discontinuation of ESPN carriage, programming costs of £1,313 million (2013: £1,222 million) were up only 1% in the period due to disciplined choices made across our diverse content portfolio. We continued to strengthen our entertainment offering with further investment in UK commissioned content, premiering 20 UK commissions in the quarter.

Tight cost control and positive operating leverage saw direct network costs increase at a rate 400bps lower than home communications growth. These costs were up 16% to £404 million (2013: £348 million) despite a 20% increase in the volume of home communications products in the last 12 months and a 12% increase in unbundled exchanges, as we continue to drive efficiencies in this area. Our fully unbundled customers are up 25% year on year, and our unbundled network now serves 90% of UK homes. Direct network costs also include a one-off step-up as we integrate the O2 consumer fixed line and broadband business.

Other Operating Costs

Marketing costs increased by 13% to £613 million (2013: £541 million) driven by the 42% increase in growth of paid-for products which we saw in the first half and the continued strong customer response to our connected services investment. We maintained our share of voice in the market with targeted above-the-line campaigns, and saw the launch of the NOW TV box and Entertainment pack in November. Marketing costs represented 16% of revenues – in line with recent trends.

Subscriber management costs increased by 9% to £353 million (2013: £323 million) as we continued to see strong growth in products and customers and continued to integrate the acquired O2 customers into the Sky base. Additionally, there was an increase in variable costs relating to Sky Bet to support the revenue growth and for Sky Italia box sales.

Transmission, technology and fixed network costs increased by 15% to £221 million (2013: £193 million) largely due to the first time consolidation of the cost base associated with the O2 broadband business. Administration costs were down year on year at £258 million (2013: £259 million).

Depreciation and amortisation grew 31% to £218 million (2013: £166 million). The increase is due to the integration of the acquired O2 business and the resulting 21% rise in our broadband customer base, and a higher fixed asset base as we begin to depreciate the development costs of recently launched products such as Sky Go Extra, NOW TV and Adsmart.

Connected Services Investment

As outlined at our full year results, we have pressed forward with our plans to grow our business and create value by driving adoption of our new connected TV services. We invested approximately £40 million in the first half, the majority of which was variable and the result of strong customer demand, comprising hardware (wireless connectors, WiFi-enabled set top boxes, NOW TV boxes), additional content for our Sky Go and On Demand offerings, and promoting awareness of these services. We are already seeing clear benefits from this investment in line with our expectations.

Adjusting Items

Statutory operating profit of £565 million (2013: £679 million) includes a total net charge of £30 million following the O2 broadband acquisition comprising one-time customer migration costs, costs associated with running the network of the acquired O2 business in parallel to our own whilst the migration process takes place and £11 million of amortisation of acquired intangible assets.

Statutory profit after tax of £411 million (2013: £487 million) includes a £9 million benefit relating to the tax effect on adjusting items. We also saw a net £3 million benefit relating to mark-to-market values of derivative financial instruments. Please refer to Appendix 2 for a detailed reconciliation of statutory and adjusted numbers.

Earnings

EBITDA of £813 million (2013: £813 million) and operating profit of £595 million (2013: £647 million) were both in line with our plans. Profit after tax was £429 million (2013: £463 million), generating an adjusted basic earnings per share of 27.3 pence (2013: 28.3 pence). The number of shares in issue at 31 December 2013 was 1,580 million (31 December 2012: 1,620 million).

Cash generated from operations

The Group continues to generate strong cash flow. Adjusted cash generated from operations of £823 million (2013: £858 million) was down 4% primarily due to the timing impact of payments to third parties. Adjusted free cash flow was 19% lower at £390 million (2013: £482 million) reflecting higher capex and increased interest payments relating to the \$800 million bond issued in November 2012.

Capex increased by £38 million to £245 million (2013: £207 million) due to the phasing of payments on our campus redevelopment and the continued integration of O2 customers. Excluding one-off items related to the migration of O2 customers and the planned redevelopment of our Osterley campus, the underlying capex was £218 million.

Net debt increased to £1,432 million (June 2013: £1,183 million) primarily as a result of share repurchases of £115 million in the first half and the £298 million payment of the full year dividend. During the period we extended the maturity of our £743 million Revolving Credit Facility for an additional year to 31 October 2018 on improved terms. For an analysis of movements in net debt see Appendix 2.

Distribution to Shareholders

The Directors have declared an interim dividend of 12.0 pence per share (2013: 11.0 pence per share) representing an increase of 9% and the tenth consecutive year of an increase in the interim dividend for shareholders. In a year of investment in connected services, the Directors aim to maintain a progressive dividend policy and intend to reflect underlying earnings when setting the full year dividend. As in prior years, growth in the interim dividend is expected to be slightly higher than that expected for the full year. The ex-dividend date will be 26 March 2014 and the dividend will be paid on 22 April 2014 to shareholders of record on 28 March 2014.

At the Company's AGM on 22 November 2013, we received shareholder approval to return a further £500 million of capital to shareholders via a share buyback programme of which £434 million capacity remains available to be used as at January 2014. For the six months to 31 December 2013, the Company repurchased for cancellation a total of 14 million shares for consideration of £115 million. The closing share count at the end of the quarter was 1,580 million.

CORPORATE

Competition Appeal Tribunal (CAT)

In December the Court of Appeal heard appeals by BT, Sky and the FAPL against the CAT's August 2012 judgment in relation to the imposition by Ofcom of "Wholesale Must Offer" (WMO) obligations on Sky. Ofcom's WMO obligations remain in place pending the Court of Appeal's judgment, which is expected later in the year.

On 13 January 2014, the European Commission opened a formal antitrust investigation into cross-border provision of pay TV services in the EU. The Commission will examine certain provisions relating to territorial protection in licence agreements between major US film studios (Twentieth Century Fox, Warner Bros., Sony Pictures, NBCUniversal, Paramount) and key European pay-TV broadcasters (the Group, Canal Plus in France, Sky Italia, Sky Deutschland and Digital Plus in Spain). The Commission has not reached any conclusions at this stage and the Group is not yet able to assess whether, or the extent to which, this review will have a material effect on the Group.

Schedule 1 – KPI Summary

All figures (000) unless stated	FY11/12			FY12/13				FY13/14	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Total paid-for subscription products	26,830	27,734	28,365	28,898	29,513	30,228	31,634	32,434	33,307
TV	10,253	10,268	10,288	10,308	10,358	10,388	10,422	10,459	10,536
Sky+ HD	4,063	4,222	4,343	4,468	4,561	4,669	4,786	4,893	5,005
Multiroom	2,350	2,378	2,402	2,423	2,467	2,476	2,489	2,503	2,528
Sky Go Extra	-	-	-	-	-	44	166	385	643
Broadband	3,651	3,863	4,001	4,103	4,235	4,387	4,906	5,017	5,127
Telephony	3,407	3,627	3,768	3,888	4,022	4,208	4,501	4,652	4,792
Line Rental	3,106	3,376	3,563	3,708	3,870	4,056	4,364	4,525	4,676
New connected TV services	2,549	3,211	3,735	4,023	4,781	5,546	5,966	6,642	7,666
Connected HD boxes	442	604	995	1,255	1,715	2,284	2,709	3,351	4,352
Sky Go unique users	2,107	2,607	2,740	2,768	3,066	3,262	3,257	3,291	3,314
Total products and services	29,379	30,945	32,100	32,921	34,294	35,774	37,600	39,076	40,973
Other metrics:									
Retail customers	10,471	10,549	10,606	10,654	10,742	10,812	11,153	11,224	11,330
Wholesale customers	3,629	3,657	3,672	3,714	3,751	3,801	3,677	3,617	3,624
Total customers	14,100	14,206	14,278	14,368	14,493	14,613	14,830	14,841	14,954
ARPU (£) ¹	£536	£538	£541	£542	£558	£567	£569	£559	£570
Triple-play %	29%	31%	32%	33%	33%	34%	35%	36%	36%
Churn	9.6%	10.1%	9.9%	10.9%	10.3%	10.8%	10.9%	11.0%	10.8%
Fixed Network Metrics									
On-net base	3,403	3,636	3,778	3,882	4,031	4,190	4,696	4,826	4,921
MPF base	2,146	2,423	2,588	2,762	2,926	3,159	3,359	3,504	3,659
SMPF base	1,257	1,213	1,190	1,120	1,105	1,031	1,337	1,322	1,262
MPF %	63%	67%	69%	71%	73%	75%	72%	73%	74%
SMPF %	37%	33%	31%	29%	27%	25%	28%	27%	26%
Off-net base	248	227	223	221	204	197	210	191	206
Total Broadband	3,651	3,863	4,001	4,103	4,235	4,387	4,906	5,017	5,127
On-net %	93%	94%	94%	95%	95%	96%	96%	96%	96%
Total no. of LLU exchanges	1,907	1,964	1,965	2,036	2,108	2,202	2,323	2,354	2,355

¹ Calculations have been restated to exclude revenue earned from retailing the ESPN channel.

Related Party Transactions

Details of transactions with related parties during the six month period to 31 December 2013 are provided in Appendix 1.

Principal risks and uncertainties

A summary of the Group's principal risks and uncertainties is provided in Appendix 3.

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 names and functions of the directors of British Sky Broadcasting Group plc can be found on pages 34-35 of the 2013 Annual Report.

By order of the Board
Jeremy Darroch
Chief Executive Officer

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 from the related IFRS measures.

Forward looking statements

This document contains certain forward looking statements with respect to the Group's financial condition, results of operations and business, and our strategy, plans and objectives for the Group. 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, the potential for growth of free-to-air and pay television, fixed line telephony, broadband and bandwidth requirements, advertising growth, DTH and OTT customer growth, On Demand, NOW TV, Sky Go, Sky Go Extra, Sky+HD and other services penetration, revenue, administration costs and other costs, advertising growth, churn, profit, cash flow, products and our broadband network footprint, content, wholesale, marketing and capital expenditure 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 highlighted in the document in Appendix 3 - "Principal 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.

Glossary of Terms

A glossary of terms is included within the Annual Report and on our corporate investor relations web page at <http://corporate.sky.com/investors/glossary>. Copies of the Annual Report are available from the British Sky Broadcasting Group plc web page at www.sky.com/corporate and in hard copy from the Company Secretary, British Sky Broadcasting Group plc, Grant Way, Isleworth, Middlesex TW7 5QD.

Appendix 1 - Condensed Consolidated Interim Financial Statements

Condensed Consolidated Income Statement for the half year ended 31 December 2013

	Notes	2013/14 Half year £m	2012/13 Half year £m
Revenue	2	3,757	3,533
Operating expense	3	(3,192)	(2,854)
EBITDA		794	845
Depreciation and amortisation		(229)	(166)
Operating profit		565	679
Share of results of joint ventures and associates		21	18
Investment income		6	7
Finance costs		(65)	(62)
Profit before tax		527	642
Taxation		(116)	(155)
Profit for the period		411	487
Earnings per share from profit for the period (in pence)			
Basic	4	26.2p	29.7p
Diluted	4	26.0p	29.5p
Adjusted earnings per share from adjusted profit for the period (in pence)			
Basic	4	27.3p	28.3p
Diluted	4	27.1p	28.1p

Condensed Consolidated Statement of Comprehensive Income for the half year ended 31 December 2013

	2013/14	2012/13
	Half year	Half year
	£m	£m
Profit for the period attributable to equity shareholders of the parent company	411	487
Other comprehensive income		
Amounts recognised directly in equity that may subsequently be recycled to the income statement		
Gain on revaluation of available-for-sale investments	155	86
Loss on cash flow hedges	(160)	(104)
Tax on cash flow hedges	34	25
Exchange differences on translation of foreign operations	(1)	-
	28	7
Amounts reclassified and reported in the income statement		
Gain on cash flow hedges	102	25
Tax on cash flow hedges	(23)	(6)
	79	19
Other comprehensive income for the period (net of tax)	107	26
Total comprehensive income for the period attributable to equity shareholders of the parent company	518	513

Condensed Consolidated Balance Sheet as at 31 December 2013

	31 December 2013 £m	31 December 2012 £m	30 June 2013 £m
Non-current assets			
Goodwill	1,028	959	999
Intangible assets	747	568	718
Property, plant and equipment	1,035	965	1,041
Investments in joint ventures and associates	170	160	164
Available-for-sale investments	578	320	422
Deferred tax assets	29	44	38
Trade and other receivables	17	18	17
Programme distribution rights	19	-	17
Derivative financial assets	221	305	360
	3,844	3,339	3,776
Current assets			
Inventories	1,017	880	548
Trade and other receivables	613	635	591
Short-term deposits	395	510	595
Cash and cash equivalents	765	888	815
Derivative financial assets	4	11	20
	2,794	2,924	2,569
Total assets	6,638	6,263	6,345
Current liabilities			
Borrowings	11	8	11
Trade and other payables	2,488	2,228	2,023
Current tax liabilities	129	217	176
Provisions	51	48	94
Derivative financial liabilities	34	10	13
	2,713	2,511	2,317
Non-current liabilities			
Borrowings	2,723	2,822	2,909
Trade and other payables	73	70	63
Provisions	15	10	14
Derivative financial liabilities	103	81	29
Deferred tax liabilities	1	1	1
	2,915	2,984	3,016
Total liabilities	5,628	5,495	5,333
Share capital	790	810	797
Share premium	1,437	1,437	1,437
Reserves	(1,217)	(1,479)	(1,222)
Total equity attributable to equity shareholders of the parent company	1,010	768	1,012
Total liabilities and shareholders' equity	6,638	6,263	6,345

Condensed Consolidated Cash Flow Statement for the half year ended 31 December 2013

	Notes	2013/14 Half year £m	2012/13 Half year £m
Cash flows from operating activities			
Cash generated from operations	6	774	858
Interest received		6	9
Taxation paid		(135)	(132)
Net cash from operating activities		645	735
Cash flows from investing activities			
Dividends received from joint ventures and associates		17	17
Net funding to joint ventures and associates		(2)	(1)
Proceeds on disposal of investments		-	4
Purchase of property, plant and equipment		(122)	(97)
Purchase of intangible assets		(123)	(110)
Purchase of subsidiaries (net of cash and cash equivalents purchased)		(20)	(1)
Purchase of available-for-sale investments		(2)	(7)
Decrease in short-term deposits		200	200
Net cash (used in) from investing activities		(52)	5
Cash flows from financing activities			
Net proceeds from borrowing		-	499
Repayment of obligations under finance leases		(1)	-
Proceeds from disposal of shares in Employee Share Ownership Plan ("ESOP")		4	6
Purchase of own shares for ESOP		(164)	(69)
Repayment of borrowing resulting from acquisition		-	(11)
Purchase of own shares for cancellation		(115)	(414)
Interest paid		(69)	(62)
Dividends paid to shareholders		(298)	(265)
Net cash used in financing activities		(643)	(316)
Net (decrease) increase in cash and cash equivalents		(50)	424
Cash and cash equivalents at the beginning of the period		815	464
Cash and cash equivalents at the end of the period		765	888

Condensed Consolidated Statement of Changes in Equity for the half year ended 31 December 2013

	Share capital	Share premium	ESOP reserve	Hedging reserve	Available-for-sale reserve	Other reserves	Retained earnings	Total shareholders' equity
	£m	£m	£m	£m	£m	£m	£m	£m
At 30 June 2012	837	1,437	(112)	68	165	399	(1,850)	944
Profit for the period	-	-	-	-	-	-	487	487
Revaluation of available-for-sale investment	-	-	-	-	86	-	-	86
Recognition and transfer of cash flow hedges	-	-	-	(79)	-	-	-	(79)
Tax on items taken directly to equity	-	-	-	19	-	-	-	19
Total comprehensive income for the period	-	-	-	(60)	86	-	487	513
Share-based payment	-	-	(52)	-	-	-	27	(25)
Tax on items taken directly to equity	-	-	-	-	-	-	5	5
Purchase of own equity shares for cancellation	(27)	-	-	-	-	27	(404)	(404)
Dividends	-	-	-	-	-	-	(265)	(265)
At 31 December 2012	810	1,437	(164)	8	251	426	(2,000)	768
Profit for the period	-	-	-	-	-	-	492	492
Revaluation of available-for-sale investment	-	-	-	-	100	-	-	100
Recognition and transfer of cash flow hedges	-	-	-	4	-	-	-	4
Tax on items taken directly to equity	-	-	-	(1)	-	-	-	(1)
Total comprehensive income for the period	-	-	-	3	100	-	492	595
Share-based payment	-	-	17	-	-	-	34	51
Tax on items taken directly to equity	-	-	-	-	-	-	3	3
Share buy-back programme								
- Purchase of own equity shares for cancellation	(13)	-	-	-	-	13	(213)	(213)
- Financial liability for close period purchases	-	-	-	-	-	-	(16)	(16)
Dividends	-	-	-	-	-	-	(176)	(176)
At 30 June 2013	797	1,437	(147)	11	351	439	(1,876)	1,012
Profit for the period	-	-	-	-	-	-	411	411
Exchange differences on translation of foreign operations	-	-	-	-	-	(1)	-	(1)
Revaluation of available-for-sale investment	-	-	-	-	155	-	-	155
Recognition and transfer of cash flow hedges	-	-	-	(58)	-	-	-	(58)
Tax on items taken directly to equity	-	-	-	11	-	-	-	11
Total comprehensive income for the period	-	-	-	(47)	155	(1)	411	518
Share-based payment	-	-	(14)	-	-	-	(114)	(128)
Tax on items taken directly to equity	-	-	-	-	-	-	5	5
Purchase of own equity shares for cancellation (see note 7)	(7)	-	-	-	-	7	(99)	(99)
Dividends	-	-	-	-	-	-	(298)	(298)
At 31 December 2013	790	1,437	(161)	(36)	506	445	(1,971)	1,010

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 2013 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") as adopted for use in the European Union and issued by the International Accounting Standards Board. 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 2013, except for new accounting pronouncements which have become effective this period, none of which had a material 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 2013 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 2013 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 2014, this date will be 29 June 2014, this being a 52 week year (fiscal year 2013: 30 June 2013, 52 week year). The condensed consolidated interim financial statements are based on the 26 weeks ended 29 December 2013 (fiscal year 2013: 26 weeks ended 30 December 2012). 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 59 of the 2013 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

	2013/14	2012/13
	Half year	Half year
	£m	£m
Retail subscription	3,084	2,907
Wholesale subscription	198	194
Advertising	231	215
Installation, hardware and service	38	47
Other	206	170
	3,757	3,533

3 Operating expense

	2013/14	2012/13
	Half year	Half year
	£m	£m
Programming	1,313	1,222
Direct networks ⁽ⁱ⁾	414	316
Marketing ⁽ⁱⁱ⁾	614	541
Subscriber management and supply chain ⁽ⁱⁱ⁾	355	323
Transmission, technology and fixed networks ⁽ⁱⁱ⁾	226	193
Administration ⁽ⁱⁱ⁾	270	259
	3,192	2,854

(i) Included within direct networks costs for the period ended 31 December 2012 is a credit of £32 million in relation to a credit note received following an Ofcom determination.

(ii) Included within operating expenses for the period ended 31 December 2013 are costs of £30 million relating to the acquisition and integration of the O2 consumer and fixed-line telephony business, including amortisation of £11 million in relation to associated intangible assets.

4 Earnings per share

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

	2013/14 Half year Millions of shares	2012/13 Half year Millions of shares
Ordinary shares	1,590	1,654
ESOP trust ordinary shares	(19)	(16)
Basic shares	1,571	1,638
Dilutive ordinary shares from share options	10	12
Diluted shares	1,581	1,650

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.

	2013/14 Half year £m	2012/13 Half year £m
Reconciliation from profit for the period to adjusted profit for the period		
Profit for the period	411	487
Costs relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business (see note 3)	30	-
Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness	(3)	-
Credit received following an Ofcom determination (see note 3)	-	(32)
Tax effect of above items	(9)	8
Adjusted profit for the period	429	463

5 Dividends

	2013/14 Half year £m	2012/13 Half year £m	2012/13 Full year £m
Dividends declared and paid during the period			
2012 Final dividend paid: 16.20p per ordinary share	-	265	265
2013 Interim dividend paid: 11.00p per ordinary share	-	-	176
2013 Final dividend paid: 19.00p per ordinary share	298	-	-
	298	265	441

The 2014 interim dividend is 12.0 pence per ordinary share being £187 million. The dividend was not declared at the balance sheet date and is therefore not recognised as a liability as at 31 December 2013.

6 Notes to the Condensed Consolidated Cash Flow Statement

Reconciliation of profit before taxation to cash generated from operations

	2013/14 Half year £m	2012/13 Half year £m
Profit before taxation	527	642
Depreciation and impairment of property, plant and equipment	105	81
Amortisation and impairment of intangible assets	124	85
Share-based payment expense	32	38
Net finance costs	59	55
Share of results of joint ventures and associates	(21)	(18)
	826	883
Increase in trade and other receivables	(17)	(18)
Increase in inventories	(470)	(424)
Increase in trade and other payables	470	412
(Decrease) increase in provisions	(42)	2
Increase in derivative financial instruments	7	3
Cash generated from operations	774	858

7 Shareholders' equity

Purchase of own equity shares for cancellation

On 1 November 2012, at the Company's AGM, the Company was granted the authority to return £500 million of capital to shareholders via a share buy-back programme. This authority was subject to an agreement between the Company and Twenty-First Century Fox, Inc. (formerly known as News Corporation) (and others) dated 28 July 2012 whereby following any market purchases of shares by the Company, Twenty-First Century Fox, Inc. would 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 Twenty-First Century Fox, Inc. would be the price payable by the Company in respect of the relevant market purchases (the "2012 Share Buy-back Agreement").

At the Company's AGM on 22 November 2013, the Company was granted the authority to return a further £500 million of capital to shareholders via a share buy-back programme. This authority was subject to an agreement between the Company and Twenty-First Century Fox, Inc. (and others) dated 25 July 2013 on substantially the same terms as the 2012 Share Buy-back Agreement.

During the period, the Company purchased, and subsequently cancelled, 14,029,122 ordinary shares at an average price of £8.17 per share, with a nominal value of £7 million, for a consideration of £115 million. Consideration included stamp duty and commission of £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, 5,490,678 ordinary shares from Twenty-First Century Fox, Inc at an average price of £8.17 per share, with a nominal value of £3 million, for a consideration of £45 million. Consideration included stamp duty of less than £1 million.

8 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 £21 million (2013: half year: £28 million; full year: £25 million).

b) Competition Appeal Tribunal (CAT)

On 8 August 2012, the CAT handed down its judgment on Sky's appeal against Ofcom's decision to impose the WMO Obligations (the "Pay TV Judgment"), publishing its full judgment on 26 October 2012. The CAT found that "Ofcom's core competition concern is unfounded" (Ofcom had found that Sky deliberately withheld wholesale supply of the Affected Channels) and that accordingly Sky's appeal must be allowed. On 26 April 2013, BT was granted permission to appeal the Pay TV Judgment to the Court of Appeal. The Court of Appeal has stayed the withdrawal of Ofcom's original decision (and therefore the withdrawal of the WMO Obligations and distribution of the monies held in escrow) pending determination of BT's appeal. The Court of Appeal heard BT's appeal and a cross appeal by the Group and the FAPL on 5 and 6 December 2013. Judgment is expected in due course.

At 31 December 2013, £33 million of cash is being held in the escrow account (2013: half year: £27 million; full year: £31 million).

c) Ofcom determination

Included within direct networks costs for the period ended 31 December 2013 is a credit of £32 million in relation to a credit note received from BT following an Ofcom determination which requires BT to repay monies to Sky for overcharged-for Ethernet services (backhaul) between 2006/07 and 2009/10. Sky, BT and others have appealed Ofcom's determination in the CAT.

9 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 Twenty-First Century Fox, Inc. ("21st Century Fox") group, a major shareholder.

Transactions with related parties and amounts outstanding in relation to those transactions and with related parties at 31 December are as follows:

	2013/14 Half year £m	2012/13 Half year £m	2012/13 Full year £m
Supply of goods or services by the Group	53	47	89
Purchases of goods or services by the Group	(50)	(68)	(156)
Amounts owed to the Group	3	6	7
Amounts owed by the Group	(79)	(116)	(102)

At 31 December 2013 the Group had expenditure commitments of £129 million (2013: half year: £193 million; full year: £97 million) with 21st Century Fox companies, all of which related to minimum television programming rights commitments.

Goods and services supplied to 21st Century Fox

During the current period, the Group supplied set-top boxes, programming, airtime, transmission, marketing, customer relationship management services and a licence to use the Sky brand to 21st Century Fox.

Purchases of goods and services and certain other relationships with 21st Century Fox

During the current period, the Group purchased programming from 21st Century Fox companies.

There is an agreement between 21st Century Fox (formerly known as News Corporation) and the Group pursuant to which it has been agreed that, for so long as 21st Century Fox directly or indirectly holds an interest of 30% or more in the Group, 21st Century Fox will not engage in the business of satellite broadcasting in the UK or Ireland.

Share buy-back programme

During the period, the Company purchased, and subsequently cancelled, 5,490,678 ordinary shares held by 21st Century Fox as part of its share buy-back programme. For further details, see note 7.

9 Transactions with related parties and major shareholders (continued)

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.

	2013/14 Half year £m	2012/13 Half year £m	2012/13 Full year £m
Supply of services by the Group	10	10	22
Purchases of goods or services by the Group	(32)	(34)	(66)
Amounts owed by joint ventures and associates to the Group	9	13	9
Amounts owed to joint ventures and associates by the Group	(13)	(7)	(9)

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 £1 million (2013: half year: £6 million; full year: £1 million) relating to non-interest bearing loan funding. The maximum amount of loan funding outstanding in total from joint ventures and associates during the period was £1 million (2013: half year: £7 million; full year: £7 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 with the joint venture AETN UK that had not matured as at 31 December 2013 was £7 million (2013: half year: £3 million; full year: £8 million).

During the current period, US\$1 million (2013: half year: US\$1 million) was paid to AETN UK upon maturity of forward exchange contracts.

During the current period, £1 million (2013: half year: £1 million) was received from AETN UK upon maturity of forward exchange contracts and £2 million (2013: half year: £1 million) was paid to AETN UK upon maturity of forward exchange contracts.

During the current period, €2 million (2013: half year: €1 million) was received from AETN UK upon maturity of forward exchange contracts.

At 31 December 2013 the Group had minimum expenditure commitments of £4 million (2013: half year: £5 million; full year: £4 million) with its joint ventures and associates.

c) Other transactions with related parties

A close family member of a Director of the Company runs Freud Communications 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 (2013: half year: £1 million). At 31 December 2013, there were amounts of less than £1 million owed to Freud (2013: half year: less than £1 million; full year: less than £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 Company. At 31 December 2013, there were 15 (2012: half year: 14; full year: 14) members of key management, all of whom were Directors of the Company. Key management compensation is provided below:

	2013/14 Half year £m	2012/13 Half year £m	2012/13 Full year £m
Short-term employee benefits	3	3	6
Share-based payments	3	5	10
	6	8	16

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

10 Financial instruments

The following table categorises the Group's financial instruments which are held at fair value into one of three levels to reflect the degree to which observable inputs are used in determining their fair values:

	Level 1		Level 2		Level 3	
	31 December 2013	30 June 2013	31 December 2013	30 June 2013	31 December 2013	30 June 2013
	£m	£m	£m	£m	£m	£m
Financial assets						
<i>Available-for-sale financial assets</i>						
ITV investment	564	409	-	-	-	-
Other investments	-	-	-	-	14	13
<i>Financial assets at fair value through profit or loss</i>						
Interest rate swaps	-	-	92	109	-	-
Cross-currency swaps	-	-	123	233	-	-
Forward foreign exchange contracts	-	-	10	38	-	-
Total	564	409	225	380	14	13
Financial liabilities						
<i>Financial liabilities at fair value through profit or loss</i>						
Cross-currency swaps	-	-	(73)	(15)	-	-
Forward foreign exchange and option contracts	-	-	(64)	(27)	-	-
Total	-	-	(137)	(42)	-	-

Level 1 fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair values measured using inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly. Derivative financial instrument fair values are present values determined from future cash flows discounted at rates derived from market source data.

Level 3 fair values measured using inputs for the asset or liability that are not based on observable market data. Certain of the Group's available-for-sale financial assets are held at fair value and are categorised as Level 3 in the fair value hierarchy.

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 1 to the half-yearly financial report for the six months ended 31 December 2013 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 Conduct 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 2013 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 Conduct Authority.

Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom
29 January 2014

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 2 – Non-GAAP measures

Reconciliation of cash generated from operations to adjusted free cash flow for the half year ended 31 December 2013

	2013/14 Half year £m	2012/13 Half year £m
Cash generated from operations	774	858
<i>Adjusting items:</i>		
Cash paid relating to integration of O2 and BE consumer broadband and fixed-line telephony business	20	-
Cash paid under provisions recognised in prior periods	29	-
Adjusted cash generated from operations	823	858
Interest received	6	9
Taxation paid	(135)	(132)
Dividends received from joint ventures and associates	17	17
Net funding to joint ventures and associates	(2)	(1)
Purchase of property, plant and equipment	(122)	(97)
Purchase of intangible assets	(123)	(110)
Interest paid	(69)	(62)
Tax effect of above adjusting items	(15)	-
Tax paid on income received following final settlement of disputes in prior periods with a former manufacturer of set-top boxes and an Ofcom determination	10	-
Adjusted free cash flow	390	482

Analysis of movements in net debt

	As at 1 July 2013 £m	Cash movements £m	Non-cash movements £m	As at 31 December 2013 £m
Current borrowings	11	-	-	11
Non-current borrowings	2,909	-	(186)	2,723
Debt	2,920	-	(186)	2,734
Borrowings-related derivative financial instruments	(327)	-	185	(142)
Cash and cash equivalents	(815)	50	-	(765)
Short-term deposits	(595)	200	-	(395)
Net debt	1,183	250	(1)	1,432

Consolidated income statement - reconciliation of statutory and adjusted numbers

	Notes	2013/14			2012/13		
		Statutory £m	Adjusting Items £m	Adjusted £m	Statutory £m	Adjusting Items £m	Adjusted £m
Revenue							
Retail subscription		3,084	-	3,084	2,907	-	2,907
Wholesale subscription		198	-	198	194	-	194
Advertising		231	-	231	215	-	215
Installation, hardware and service		38	-	38	47	-	47
Other		206	-	206	170	-	170
		3,757	-	3,757	3,533	-	3,533
Operating expense							
Programming		(1,313)	-	(1,313)	(1,222)	-	(1,222)
Direct networks	A	(414)	10	(404)	(316)	(32)	(348)
Marketing	A	(614)	1	(613)	(541)	-	(541)
Subscriber management and supply chain	A	(355)	2	(353)	(323)	-	(323)
Transmission, technology and fixed networks	A	(226)	5	(221)	(193)	-	(193)
Administration	A	(270)	12	(258)	(259)	-	(259)
		(3,192)	30	(3,162)	(2,854)	(32)	(2,886)
EBITDA		794	19	813	845	(32)	813
Operating profit		565	30	595	679	(32)	647
Share of results of joint ventures and associates		21	-	21	18	-	18
Investment income		6	-	6	7	-	7
Finance costs	B	(65)	(3)	(68)	(62)	-	(62)
Profit before tax		527	27	554	642	(32)	610
Taxation	C	(116)	(9)	(125)	(155)	8	(147)
Profit for the period		411	18	429	487	(24)	463
Earnings per share (basic)		26.2p	1.1p	27.3p	29.7p	(1.4)p	28.3p

Notes: explanation of adjusting items for the period ended 31 December 2013

- A. Costs of £30 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business, including amortisation of £11 million in relation to associated intangible assets.
- B. Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness.
- C. Tax effect of adjusting items.

Notes: explanation of adjusting items for the period ended 31 December 2012

- A. A credit of £32 million in relation to a credit note received following an Ofcom determination.
- C. Tax effect of adjusting items.

Adjusted revenue as presented in the above table differs from adjusted revenue from recurring activities as presented elsewhere in this document. Adjusted revenue from recurring activities excludes revenues earned from the discontinued retailing of the ESPN channel in the current and prior periods. The current period includes the consolidation of revenues from former O2 broadband customers.

Appendix 3 – Principal risks and uncertainties

The Board continually assesses and monitors the key risks of the business. The 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 24-27 of the 2013 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.

- **Market and competition:** The Group operates in a highly competitive environment and faces competition from a broad range of organisations. Technological developments also have the ability to create new forms of quickly evolving competition. A failure to develop the Group's product proposition in line with changing market dynamics and expectations could erode the Group's competitive position. Great content is central to Sky's product proposition and increased competition could impact the Group's ability to acquire content that its customers want on commercially attractive terms. Economic conditions have been challenging in recent years and the future remains uncertain. A significant economic decline could impact on the Group's ability to continue to attract and retain customers.
- **Regulatory breach and change:** The Group is subject to regulation primarily under UK, Irish and European Union legislation. The Group is currently, and may be in the future, subject to proceedings, and/or investigation and enquiries, from regulatory authorities. The Group's ability to operate or compete effectively could be adversely affected by the outcome of investigations or by the introduction of new laws, policies or regulations, changes in the interpretation or application of existing laws, policies and regulations, or failure to obtain required regulatory approvals or licences.
 - On 8 August 2012, the CAT handed down its judgment on Sky's appeal against Ofcom's decision to impose the WMO Obligations (the "Pay TV Judgment"), publishing its full judgment on 26 October 2012. The CAT found that "Ofcom's core competition concern is unfounded" (Ofcom had found that Sky deliberately withheld wholesale supply of the Affected Channels) and that accordingly Sky's appeal must be allowed. On 26 April 2013, BT was granted permission to appeal the Pay TV Judgment to the Court of Appeal. The Court of Appeal has stayed the withdrawal of Ofcom's original decision (and therefore the withdrawal of the WMO Obligations and distribution of the monies held in escrow) pending determination of BT's appeal. The Court of Appeal heard BT's appeal and a cross appeal by the Group and the FAPL on 5 and 6 December 2013. Judgment is expected in due course.
 - Following receipt of a complaint from BT, on 14 June 2013, Ofcom opened an investigation into whether Sky has abused a dominant position contrary to Chapter II of the Competition Act 1998 and/or Article 102 of the Treaty on the Functioning of the EU. BT's complaint alleges that the terms on which Sky offered wholesale supply of Sky Sports 1 and 2 to BT for its service on the YouView platform amount to an abuse of dominance. The complaint alleges that Sky is making wholesale supply of Sky Sports 1 and 2 to BT for its YouView service conditional on BT wholesaling BT Sports channels to Sky for retail on Sky's satellite platform. As part of the complaint, BT sought interim measures from Ofcom. On 31 July 2013, Ofcom refused BT's application for interim measures. Sky is currently unable to determine the outcome of Ofcom's investigation.
 - On 13 January 2014, the European Commission opened a formal antitrust investigation into cross-border provision of pay TV services in the EU. The Commission will examine certain provisions relating to territorial protection in licence agreements between major US film studios (Twentieth Century Fox, Warner Bros., Sony Pictures, NBCUniversal, Paramount) and key European pay-TV broadcasters (the Group, Canal Plus, Sky Italia, Sky Deutschland and DTS). The Commission has not reached any conclusions at this stage and the Group is not yet able to assess whether, or the extent to which, this review will have a material effect on the Group
- **Customer service:** The Group's business is based on a subscription model and its future success relies on building long-term relationships with its customers. A failure to meet its customers' expectations with regards to service could negatively impact the Group's brand and competitive position.
- **Technology and business interruption:** The products and services that the Group provides to its customers are reliant on complex technical infrastructure. A failure in the operation of the Group's key systems or infrastructure, such as the broadcast platform, customer management systems or the telecommunications networks on which the Group relies could cause a failure of service to our customers and negatively impact our brand.
- **Supply chain:** The Group relies on a number of third parties and outsourced suppliers operating across the globe to support its supply chain. A significant failure within the supply chain could adversely affect the Group's ability to deliver products and service to its customers.
- **Financial:** The effective management of its financial exposures is central to preserving the Group's profitability. The Group is exposed to financial market risks, and may be impacted negatively by fluctuations in foreign exchange and interest rates which create volatility in the Group's results to the extent that they are not effectively hedged. The Group may also be affected adversely by liquidity and counterparty risks.
- **Security:** The Group must protect its customer and corporate data and the safety of its people and infrastructure as well as needing to have in place fraud prevention and detection measures. The Group is responsible to third party intellectual property owners for the security of the content that it distributes on various platforms (Sky's own and third party platforms). A significant breach of security could impact the Group's ability to operate and deliver against its business objectives.
- **Projects:** The Group invests in, and delivers, significant capital expenditure projects in order continually to drive the business forward. The failure to deliver key projects effectively and efficiently could result in significantly increased project costs and impede our ability to execute our strategic plans.
- **Intellectual property protection:** The Group in common with other service providers relies on intellectual property and other 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.
- **People:** People at Sky are critical to the Group's ability to meet the needs of its customers and achieve its goals as a business. The failure to attract or retain suitable employees across the business could limit the Group's ability to deliver its business plan commitments.