



**BRITISH SKY BROADCASTING GROUP PLC**  
**Results for the twelve months ended 30 June 2011**

**AN EXCELLENT YEAR FOR CUSTOMERS AND SHAREHOLDERS**

<i>Twelve months to 30 June</i>	Adjusted results			Reported results		
	2011	2010	Variance	2011	2010	Variance
Revenue	£6,597m	£5,709m	+16%	£6,597m	£5,709m	+16%
EBITDA	£1,405m	£1,185m	+19%	£1,405m	£1,451m	-3%
Operating profit	£1,073m	£872m	+23%	£1,073m	£1,113m	-4%
Earnings per share (basic)	41.6p	32.1p	+30%	43.5p	51.4p	-15%

Reported results for the year to 30 June 2010 include one-off gains of £318 million for the final settlement in our EDS litigation and £115 million from the sale of ITV shares. Results are from continuing operations.

**Strong customer and product growth in a challenging environment**

- Total product growth of 784,000 in the quarter to 25.4 million, up 17% year on year
- 10.3 million customers with net growth of 40,000 TV customers (DTH) and 31,000 standalone home communications customers in the quarter; 426,000 in the year
- Sky<sup>+</sup>HD customers reach 3.8 million, up 30% year on year
- Strong growth in all home communications product lines with 2.4 million net additions in the year
- Good growth in other business operations with double digit revenue growth in wholesale and advertising

**Excellent financial performance**

- 16% growth in total revenue to £6.597 billion
- 19% growth in adjusted EBITDA to £1.405 billion
- 23% growth in adjusted operating profit to £1.073 billion
- 30% increase in adjusted basic earnings per share to 41.6 pence
- 51% growth in adjusted free cash flow to £869 million

**Substantial shareholder returns**

- 20% increase in full year dividend to 23.28 pence per share
- Final dividend of 14.54 pence; total cash payment of £253 million
- £750 million capital return to shareholders via a share buy-back
- News Corporation agree to participate pro rata

## Results highlights

### Customer Metrics (unaudited)

	As at 30-Jun-11	As at 30-Jun-10	Growth	Quarterly growth to 30-Jun-11
<b>Total products ('000s)</b>	<b>25,375</b>	<b>21,597</b>	<b>+3,778</b>	<b>+784</b>
TV (DTH)	10,187	9,860	+327	+40
Sky+HD	3,822	2,939	+883	+136
Multiroom	2,250	2,121	+129	+13
Broadband	3,335	2,624	+711	+174
Telephony	3,101	2,367	+734	+185
Line rental	2,680	1,686	+994	+236
<b>Total customers ('000s)</b>	<b>10,294</b>	<b>9,868</b>	<b>+426</b>	<b>+71</b>
TV customers (DTH)	10,187	9,860	+327	+40
Standalone home communications customers	107	8	+99	+31
<b>Products per customer</b>	<b>2.5</b>	<b>2.2</b>	<b>+0.3</b>	
<b>Other metrics</b>				
Customers taking each of TV, broadband & talk	27%	21%	+6%	
ARPU (quarterly annualised)	£539	£508	+£31	
Churn (quarterly annualised)	10.4%	10.5%		

### Business Performance <sup>(1)</sup> (unaudited)

£millions	12 mths to 30 Jun-11	12 mths to 30 Jun-10	Movement
Revenue	6,597	5,709	+16%
Adjusted operating profit	1,073	872	+23%
<i>% Adjusted operating profit margin</i>	<i>16.3%</i>	<i>15.3%</i>	+100 bps
Adjusted EBITDA	1,405	1,185	+19%
Adjusted free cash flow	869	577	+51%
Adjusted basic earnings per share <sup>(2)</sup>	41.6p	32.1p	+30%
Net debt as at end of period	750	1,076	-30%

### Analysis of Results <sup>(1)</sup>

£millions	12 months to 30-Jun-11			12 months to 30-Jun-10		
	Adjusted	Excep <sup>(1)</sup>	Reported	Adjusted	Excep <sup>(1)</sup>	Reported
Revenue	6,597	0	6,597	5,709	0	5,709
Operating profit	1,073	0	1,073	872	241	1,113
Cash from operations	1,603	-34	1,569	1,358	268	1,626
Basic earnings per share <sup>(2)</sup>	41.6p	1.9p	43.5p	32.1p	19.3p	51.4p

<sup>1</sup>All comparatives are restated to reflect continuing operations, excluding the Easynet operations divested on 1 September 2010. A reconciliation of adjusted operating profit and adjusted EBITDA from continuing operations to reported measures and cash generated from continuing operations to adjusted free cash flow from continuing operations is set out in Appendix 3.

<sup>2</sup>Adjusted basic EPS is calculated from adjusted profit from continuing operations for the year. A reconciliation of reported profit from continuing operations to adjusted profit from continuing operations is set out in note 8 to the consolidated financial information.

**James Murdoch, Chairman**, commented:

“This has been a year of outstanding operational and financial results for Sky. It is to the credit of Sky’s first-class management team that the company has continued to deliver throughout the offer period that ended earlier this month. On behalf of the whole Board, I am grateful to Nick Ferguson for his contribution as Deputy Chairman during the last year and I am pleased that he has agreed to continue in that role. We are pleased to announce both a 20% increase in the ordinary dividend and our intention to return £750 million to shareholders through a share buy-back programme.”

**Jeremy Darroch, Chief Executive**, commented:

“Sky has had an excellent year of delivery for both customers and shareholders. We have stayed focused on executing our plan and customers have responded by rewarding us with more of their business. Today’s announcement of a capital returns programme is a reflection of our strong performance and financial position, which flow directly from delivering for customers in the marketplace. With that in mind, we will stay focused on getting better on screen, innovating faster and delivering great value.

“In the fourth quarter, the business has delivered another strong operational and financial performance despite the challenging economic backdrop. Across the year as a whole, our growth has been broadly based, with double-digit increases in retail and business-to-business revenue and almost four million product sales across television and home communications. Combined with our focus on operational efficiency, this performance has led to excellent financial results, including 23% growth in operating profit, record earnings of 41.6p per share and 51% growth in free cash flow.

“While Sky is not immune to tougher economic conditions, we have continued to see good demand across our product portfolio as customers respond to the great quality and value that we offer. The performance in home communications was particularly strong as we continue to grow all product lines. Over the year, we increased the number of customers taking all three of TV, broadband and telephony by 37% and extended our potential reach by selling home communications products independently from television for the first time. We now have over 100,000 customers taking standalone broadband and telephony products and we see plenty of scope for continued growth.

“A key factor in our performance is the bringing together of content and innovation to create an experience that customers are willing to pay for. In an outstanding year on-screen, we have launched Sky Atlantic HD and Sky Living HD, while extending our leadership in high definition and 3D. Alongside great content, we are offering customers a better viewing experience with our full video on demand service, Sky Anytime<sup>+</sup>. Also, following the launch of Sky Go this month, all customers can now watch live TV on the move as part of their subscription.

“With a consistent strategy and a clear set of priorities, we are well positioned for the opportunities ahead as we enter the new financial year. While we expect the environment to remain challenging, we will continue to pursue a balanced approach to growth and returns, based on sensible investment in areas of long-term advantage and a strong focus on operational efficiency.”

## **OPERATIONAL REVIEW**

The business continues to perform well in what remains a challenging consumer environment. We delivered good growth across our portfolio of products, achieving total product growth of 784,000 for the quarter to 30 June 2011 (“the quarter”) and reaching a total product base of 25.4 million, an increase of 17% year on year.

At the same time, we continue to make progress in areas of long-term advantage, developing our on-screen offering and innovating to add value for customers. Our channel portfolio has been enhanced with the launch of Sky Atlantic HD and Sky Living HD and the quality of our content was recognised with six BAFTA nominations. Since full launch in April, our video on demand service, Sky Anytime<sup>+</sup>, has made a strong start with over 800,000 enabled users and the launch of Sky Go this month gives all of our TV customers the opportunity to watch Sky content on multiple devices at no extra cost.

### **Operational Performance**

We have continued to deliver value for customers and, at a time when household budgets are under pressure, our success in home communications shows that customers are responding. In addition, we have recently announced a price freeze for existing customers across our television and home communications packages until at least September 2012. The actions taken on costs and our progress made in improving operational efficiency right across the business have given us the flexibility to do this for customers at the right time in the economic cycle.

Our approach to costs has allowed us to deploy more capital in areas where our customers see most benefit. For example, by making our online support environment more intuitive and accessible, we’ve driven a step change in online traffic, reducing telephone contacts and freeing time for contact centre advisors to deal with more complex customer issues. That focus has resulted in fewer customer calls despite a growing customer and product base while reducing cost and improving customer satisfaction. Savings from call reduction are being redeployed to grow our on-shore capability, enabling us to manage more customer service queries in new contact centres such as those recently opened in Stockport, Sheffield and the soon-to-open Newcastle hub.

Our single-minded customer focus is generating strong operational results. TV additions for the quarter were 40,000, bringing the total TV base to 10.187 million. Within this loyalty remained stable with churn of 10.4% in the quarter and ARPU increased 6% to £539, benefiting from a higher penetration of additional products. ARPU was £5 lower than the previous quarter largely due to the unwinding of a VAT benefit as a result of a reduction in the frequency of our customer magazine.

While product growth was broadly based, home communications performed particularly well as more customers saved money by switching their services to Sky. Net product additions across broadband, telephony and line rental increased to 595,000 in the quarter, 27% higher than the prior year. Within that, our standalone home communications products have made good progress as we look to further leverage our fixed cost network and grow our addressable customer base. Given the scale and fixed cost nature of communications products, the contribution margin we make on the standalone service is, in some cases, higher than that on similar revenues derived from TV packages. We currently have 107,000 standalone home communications customers and, in total, we added over 420,000 new households in the year. In future, it is this measure – total customers – that we will focus on in our reporting.

Our strong performance in home communications means the number of customers choosing each of television, broadband and talk has grown by 37% on last year to 2.8 million customers, representing 27% penetration of the base.

We have continued to extend our broadband network coverage, unbundling 385 additional exchanges in the year, increasing our footprint to around 80% of households in the UK. At the same time, we are improving the economics of our home communications business by migrating more customers to our own network. We now have 1.7 million fully unbundled customers, 51% of our broadband base.

We closed the quarter with more than 3.8 million high definition (HD) customers, an increase of 30% on last year. In the context of exceptionally strong growth in the prior year following the reduction in the price of the HD box and the FIFA World Cup, net quarterly additions were lower than the prior year at 136,000. As penetration of HD-ready sets increases and our HD content offering continues to grow, we see a significant opportunity to continue adding HD customers.

## **Content**

All of our channels have performed well in the quarter, and with our increased investment in UK drama and comedy now reaching the screen, we have a strong second half of 2011 ahead.

Our new channel Sky Atlantic HD has performed strongly since launch in February with the standout show in the quarter being 'Game of Thrones' which reached 4.4 million viewers in its first season. Sky 1 delivered another good quarter with a strong performance from our UK commissioned drama, 'The Runaway'. We will build on this success with our forthcoming new slate of UK comedy this month with 'Trollied' starring Jane Horrocks and continuing with 'Stella' from Ruth Jones later in the year. Alongside these shows, we will also be showing some of the best US content including the third season of the newly-acquired 'Glee' in the autumn, and the new sci-fi action series 'Terra Nova' from Steven Spielberg. Sky Living continues to perform well, with one in five Sky customers now rating the channel amongst their favourites. The former Sky 1 series, 'Bones' has made a successful transition to the channel and other popular series such as 'Grey's Anatomy' and 'Criminal Minds' have also attracted significantly higher audiences compared to last year.

Sky Sports achieved record audiences for last season's Premier League, with an average audience of 1.4 million viewers per game, 11% higher than last year. Sky Sports also received record audiences for the US Open Golf and we saw an excellent response to our coverage of The Masters. Customers will enjoy even more great content from Sky Sports as we are announcing today a new seven year deal for rights to broadcast Formula 1. From March 2012, Sky will be the only place to see all the races, with at least half those being exclusively live on Sky. We will also show live qualifying and practice sessions and extensive pre and post-race coverage, all in HD. Sky subscribers with Sky Sports will also be able to watch live coverage online and on mobiles and tablets.

We continue to make good progress in 3D, with our Sky 3D channel winning a BAFTA award for Sir David Attenborough's 'Flying Monsters', the first 3D programme ever to win a BAFTA award. Sky 3D also achieved another first when it screened Matthew Bourne's production of 'Swan Lake' in conjunction with Sky Arts, the first full-length ballet to be shown in 3D. To support and facilitate further innovation and development of 3D content we are today announcing the formation of a new production company with Atlantic Productions, the producers of 'Flying Monsters', to develop original 3D programming for UK and international audiences.

Looking ahead, we will continue to invest in our content proposition, giving more people reasons to choose Sky. In line with this strategy, we have announced plans to increase our investment in UK originated content and production by more than 50% to £600 million in 2014. This will include weekly, original British comedy in 2011, a threefold increase in hours of original British drama and a tripling of our arts programming budget.

Last month we achieved a significant milestone with the opening of our new broadcast facility, Sky Studios. Sky Sports News has begun broadcasting from the state-of-the-art facility which houses space for eight studios as well as editing and post-production facilities.

## **Innovation**

We continue to innovate to add value for customers.

Sky Go launched in July for all customers and means they can access Sky content on multiple devices at no extra cost. This will provide more flexibility and convenience for customers to watch live TV on the move via PCs, laptops, Macs, iPhones and iPads. Customers can register up to two devices for Sky Go and have access to a range of channels, including all five Sky Sports channels, in line with their TV subscription.

Our video on demand service, Sky Anytime<sup>+</sup>, has generated a strong response since full launch in April, with more than 800,000 customers enjoying the convenience and flexibility it offers. Anytime<sup>+</sup> gives customers access to TV box sets and over 600 movies, on demand, at no extra cost. The service is supported by our state-of-the-art, high-capacity broadband network and its connectivity to the HD box. Customers with our unlimited broadband package also benefit from a truly unlimited service, with no fair use policies, data caps or traffic management.

We are progressing well with our technical integration of The Cloud, ahead of launching our customer proposition later this year. We have added to our existing high-quality Wi-Fi venues with the signing of over 1,200 new sites including Virgin Active and Pizza Express.

### **The Bigger Picture**

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

In support of the arts, in April we launched a major new programme to back new arts projects and emerging artists. The programme, Sky Arts Ignition, represents an investment of over £1 million and will work with six arts organisations, creating new works, as well as providing five bursaries for young artists each year.

Our partnership with British Cycling is now in its third year and on track towards our ambition of getting one million more people cycling regularly by 2013. June saw the launch of a bigger and better summer of cycling with 21 free Sky Ride events taking place across the country for families and individuals of all ages and abilities.

In support of our partnership with WWF on the Sky Rainforest Rescue campaign, we broadcast a week of environmental programming including the specially commissioned series, 'Rooftop Rainforest', on Sky 1 HD. Fundraising is on target with £1 million raised to date, which Sky is matching pound for pound.

### **FINANCIAL SUMMARY**

As we consistently execute our strategy, we have delivered strong double-digit growth in each of adjusted revenue, operating profit, earnings and cash flow.

For the twelve months ended 30 June 2011 ("the year") revenue increased by 16% reflecting continued success in our multi-product strategy and strong growth in other business lines. Adjusted operating profit was 23% higher, exceeding one billion for the first time. Our continued focus on operational efficiency contributed to adjusted operating margin expanding to 16.3% and record adjusted basic earnings per share of 41.6 pence. Adjusted free cash flow increased by 51% as we once again efficiently converted profit to cash.

Unless otherwise stated, all figures and growth rates exclude exceptional items and are from continuing operations (including Living TV in the current year and excluding Easynet). The results for the year include the acquisition of Living TV, which completed on 12 July 2010, and contributed £107 million in revenue and £82 million of costs.

### **Revenue**

Group revenue increased to £6,597 million (2010: £5,709 million), up 16% year on year and benefitting from the broadly based growth delivered this year.

Retail subscription revenue increased by 15%, to £5,455 million (2010: £4,761 million), reflecting the success in our multi-product strategy and a larger customer base.

Wholesale subscription revenue increased by £85 million to £323 million (2010: £238 million) following our acquisition of Living TV and a higher number of wholesale customers paying for our premium channels.

Our advertising business has performed particularly strongly, increasing our estimated share of the TV advertising sector by four percentage points to 20%. Revenue for the year was 35% higher at £458 million (2010: £340 million), as we benefited from the consolidation of the sale of airtime on Living TV. Advertising revenue now includes revenue related to our online properties and Sky Magazine; of which £19 million (2010: £21 million) was reclassified from other revenue.

Installation, hardware and service revenue was £112 million (2010: £174 million), reflecting our decision to lower the retail price of our Sky<sup>+</sup>HD box last year.

Other revenue of £249 million (2010: £196 million) was 27% higher year on year. This increase includes revenue from the sale of set-top boxes to Sky Italia in the fourth quarter, the cost associated with the boxes are included in subscriber management and supply chain costs.

### **Direct Costs**

Direct costs were higher compared to the prior year as we increased our on-screen investment and more customers choose our home communication services.

Programming costs were 15% higher at £2,188 million (2010: £1,902 million) reflecting our strategy to bring TV customers more high quality content. Entertainment costs increased as we launched Sky Atlantic HD in February and continued to invest in British drama and comedy on Sky 1 HD and Sky Living HD. We had a full year of sport with additional content including the fifth pack of live Premier League matches, the US Masters, the Ashes in Australia and the Ryder Cup. Third party channel costs were broadly level with additional cost relating to more third party HD channels on the platform offset by carriage fee savings upon consolidation of the Living TV channels.

Direct network costs increased to £584 million (2010: £440 million) as a result of our customers taking 9.1 million home communication products from us, 37% more than a year ago. Higher volumes have been partially offset by a higher proportion of fully unbundled customers leading to lower monthly payments.

### **Other Operating Costs**

Marketing costs (excluding exceptional items) increased by £105 million to £1,220 million (2010: £1,115 million). The cost to acquire a new television subscriber ("SAC") was £376 as every single customer joining received our Sky<sup>+</sup>HD set-top box, and the launch of the Anytime<sup>+</sup> service resulted in longer install visits.

Subscriber management and supply chain costs (excluding exceptional items) were £21 million lower at £596 million (2010: £617 million) as we benefited from our operational efficiency programmes to reduce costs in our supply chain and contact centres. This was partially offset by the cost of set-top boxes sold to Sky Italia in the fourth quarter, the revenue for which can be found in other revenue.

Transmission, technology and fixed network costs increased by £88 million to £395 million (2010: £307 million). The increase relates to higher network costs as we gain scale in our fixed line business and includes costs for network services previously accounted for within the Group by Easynet.

Administration costs (excluding exceptional items) were £541 million (2010: £456 million), reflecting a higher non-cash IFRS 2 'Share-based payment' charge and associated National Insurance costs, and the acquisition of Living TV. The IFRS 2 charge and related National Insurance costs were £86 million, up £41 million on the prior year as a result of the phasing of our share-incentive plans and a higher share price throughout the year.

## **Earnings**

Adjusted profit before tax from continuing operations of £987 million (2010: £769 million) includes the Group's share of results of joint ventures and associates of £34 million (2010: £29 million), which is led by a strong portfolio of channel brands such as National Geographic, History and Nickelodeon. A net interest charge of £120 million (2010: £132 million) is also included.

Adjusted taxation from continuing operations for the period was £262 million (2010: £209 million). The full year adjusted effective tax rate on continuing operations was 27% (2010: 27%), with the reduced rate of corporation tax announced in the budget statement on 23 March 2011 having only a modest positive impact in the current year.

Adjusted profit for the period from continuing operations was £725 million (2010: £560 million), generating adjusted basic earnings per share of 41.6 pence (2010: 32.1 pence).

Reported profit for the period from continuing operations was £758 million (2010: £896 million), generating reported basic earnings per share from continuing operations of 43.5 pence (2010: 51.4 pence). Reported profit for the period including discontinued operations was £810 million (2010: £878 million) resulting in reported basic earnings per share of 46.5 pence (2010: 50.4 pence).

## **Cash Flow and Financial Position**

Adjusted free cash flow increased by 51% to £869 million (2010: £577 million) reflecting 19% growth in adjusted EBITDA, flat capital expenditure, lower tax and interest payments than the prior year, and a strong working capital position. See Appendix 3 for details of adjusting items.

Capital expenditure was £423 million (2010: £429 million), in line with our guidance of around 6.5% of revenue. Major items of expenditure in the period included the technical fit-out of our new broadcast facility and continued exchange rollout programme to increase the footprint of our fixed line communications network.

Strong cash generation during the year has contributed to the reduction in net debt of £326 million to £750 million (2010: £1,076 million). For a reconciliation of net debt see Appendix 3.

The combination of falling net debt and higher EBITDA over the past 12 months has reduced the Group's net debt to adjusted EBITDA ratio. Rating agencies often make adjustments to EBITDA and net debt when assessing credit ratings and Standard & Poors (S&P), for example, calculated an adjusted ratio of 1.4x as at 30 June 2010. The main adjustments that S&P make to our reported numbers are to add share based compensation back to EBITDA and to treat operating lease and transponder capacity commitments (approximately £650 million in total) as debt-like items. We estimate as at 30 June 2011 the S&P adjusted ratio of net debt to EBITDA would be 1.0x.

It remains the overall financial policy of the Board to maintain an efficient capital structure and a strong BBB+ credit rating, allowing sufficient financial flexibility to create additional value for shareholders via on-going organic investment, disciplined and selective acquisitions, maintaining the Company's ordinary dividend and returns to shareholders.

The Group's liquidity and headroom are comfortable with no bond redemptions falling due until October 2015 when £428 million falls due. As at the end of the year, cash and cash equivalents and short-term deposits were £1,351 million. However, this is ahead of substantial outflows (estimated at c.£330 million) associated with rights payments in July and August 2011.

### **Exceptional Items**

Reported operating profit from continuing operations of £1,073 million includes £26 million of restructuring costs from Living TV and costs of £15 million relating to the News Corporation proposal, both within administration costs. Within marketing costs there is an exceptional gain of £41 million relating to the recovery of duty arising on set-top boxes imported prior to this fiscal year.

In the prior year, reported operating profit from continuing operations of £1,113 million included litigation settlement income of £269 million relating to our claim against EDS, along with £5 million from the cancellation of accounts payable on settlement of the claim and legal costs of £1 million. £32 million relating to a restructuring exercise was also included.

Reported profit after tax includes a £42 million exceptional gain (2010: £180 million gain), of which £18 million are mark-to-market gains relating to derivative financial instruments not qualifying for hedge accounting and gains and losses arising from designated fair value hedge accounting relationships (2010: £13 million gain), £9 million relating to the profit on sale of our stake in Shine and a £15 million tax credit following the settlement of a pre-acquisition tax issue relating to the Easynet networks business retained by Sky.

Exceptional items in the prior year also included investment income relating to our litigation settlement with EDS of £49 million, £115 million relating to the sale of ITV shares and the receipt of £3 million on closure of a joint venture.

The related tax effects on the above items results in a £9 million charge (2010: £85 million charge).

### **Distributions to Shareholders**

The Directors propose an increase of 20% in the full year dividend to 23.3 pence, continuing our track record of dividend growth. On this basis, the total cash amount of dividends paid in respect of this fiscal year will be £405 million; of which the final dividend accounts for £253 million.

The ex-dividend date will be 16 November 2011 and, subject to shareholder approval at the Annual General Meeting to be held on 29 November 2011, the final dividend of 14.54 pence will be paid on 9 December 2011 to shareholders appearing on the register at the close of business on 18 November 2011.

Today, the Company has announced that it intends to seek the necessary approvals to return £750 million of capital to shareholders via a share buy-back programme. Shareholder approvals will be sought at the Company's AGM on 29 November 2011. 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 will be the price payable by the Company in respect of the relevant market purchases. The agreement is conditional on the appropriate shareholder approvals being granted. 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.

The Board considers that an on-market share repurchase programme is a flexible, equitable and tax-efficient means by which to make distributions to shareholders which are incremental to the ordinary dividend.

## **Corporate**

### News Corporation Proposal

On 13 July 2011 News Corporation announced that it no longer intends to make an offer for the entire issued and to be issued share capital of BSkyB not already owned by News Corporation. A break fee of £38.5 million has now been received and will exceed all of the Group's direct costs associated with the News Corporation proposal.

### Board

Following the withdrawal of the News Corporation proposal, the Board will return to normal processes. James Murdoch remains Chairman. Nicholas Ferguson will continue as Deputy Chairman and Senior Independent Director. All Directors will stand annually for re-election at the AGM in line with best practice. As previously communicated to shareholders, some Directors had their terms extended due solely to the News Corporation proposal to ensure sufficient continuity and stability during the period. The Board is putting in place an orderly programme for replacing members of the Board of Directors as they retire. It is the intention that Allan Leighton and David Evans retire at this year's AGM.

### Atlantic Productions

British Sky Broadcasting Limited and Atlantic Holdings Limited (AHL) today announced the creation of a new production company, Colossus Productions Limited (Colossus), to develop original 3D programming for both UK and international audiences.

Sky has entered a commissioning agreement with Colossus and will hold a 20% stake in Colossus. AHL is the holding company of Atlantic Productions Limited, the creative force behind Sky 3D's BAFTA award-winning Flying Monsters 3D and one of the world's leading factual production companies whose award winning television and theatrical films have been seen around the world.

Gross assets of Colossus subject to this transaction were nil.



### **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 management's strategy, plans and objectives for the Group. These statements include, without limitation, those that express forecasts, expectations and projections with respect to the potential for growth of free-to-air and pay-TV, fixed line telephony, broadband and bandwidth requirements, advertising growth, DTH subscriber growth, Multiroom, Sky<sup>+</sup>, Sky<sup>+</sup>HD and other services penetration, churn, DTH and other revenue, ARPU, profitability and margin growth, cash flow generation, programming costs, subscriber management and supply chain costs, administration and other costs, marketing expenditure, capital expenditure programmes, liquidity 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. Information on the significant risks and uncertainties are described in the "Principal risks and uncertainties" section of Sky's Annual Report for the full year ended 30 June 2010 (as updated in Sky's results for the six months ended 31 December 2010). Copies of the Annual Report and 31 December 2010 results are available from the British Sky Broadcasting Group plc web page at [www.sky.com/corporate](http://www.sky.com/corporate).

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 DTH customers in the quarter, annualised.
Churn	The number of customers over a given period that terminate their subscription in its entirety, net of former customers who reinstated their subscription in that period (where such reinstatement is within a 12 month period of the termination of their original subscription), expressed as an annualised percentage of total average customers for the period.
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.
Multiroom	Installation of an additional set-top box in the household of an existing DTH customer.
Net debt	Borrowings net of cash and cash-equivalents, short-term deposits, and borrowings related derivative financial instruments.
Sky by Wire	Sky's retailed packages of premium Sky Channels made available on third party operators' DSL and fibre platforms.
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 Mobile	Sky's retailed packages of television channels made available to mobile devices via a wireless or 3G connection and our Sky Mobile TV platform.
Sky <sup>+</sup>	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 subscriber to one or more of our DTH, Sky by Wire, Sky Player, or Sky Mobile TV services.
Viewing share	Number of people viewing a channel as a percentage of total viewing audience.

## Appendix 2 – Consolidated Financial Information

Consolidated Income Statement for the year ended 30 June 2011

	Notes	2011 £m	2010 £m
<b>Continuing operations</b>			
<b>Revenue</b>	1	<b>6,597</b>	5,709
Operating expense	2	<b>(5,524)</b>	(4,865)
Litigation settlement income	3	-	269
<b>EBITDA</b>		<b>1,405</b>	1,451
Depreciation and amortisation		<b>(332)</b>	(338)
<b>Operating profit</b>		<b>1,073</b>	1,113
Share of results of joint ventures and associates	13	<b>34</b>	32
Investment income on litigation settlement	3	-	49
Investment income	4	<b>9</b>	3
Finance costs	4	<b>(111)</b>	(122)
Profit on disposal of available-for-sale investment	5	<b>9</b>	115
<b>Profit before tax</b>		<b>1,014</b>	1,190
Taxation	6	<b>(256)</b>	(294)
<b>Profit for the year from continuing operations</b>		<b>758</b>	896
<b>Discontinued operations</b>			
Profit (loss) for the year from discontinued operations	7	<b>52</b>	(18)
<b>Profit for the year attributable to equity shareholders of the parent company</b>		<b>810</b>	878
<b>Earnings (loss) per share from profit (loss) for the year (in pence)</b>			
<b>Basic</b>			
Continuing operations	8	<b>43.5p</b>	51.4p
Discontinued operations	8	<b>3.0p</b>	(1.0)p
Total	8	<b>46.5p</b>	50.4p
<b>Diluted</b>			
Continuing operations	8	<b>43.0p</b>	51.1p
Discontinued operations	8	<b>2.9p</b>	(1.0)p
Total	8	<b>45.9p</b>	50.1p
<b>Adjusted earnings per share from adjusted profit for the year from continuing operations (in pence)</b>			
Basic	8	<b>41.6p</b>	32.1p
Diluted	8	<b>41.1p</b>	31.9p

**Consolidated Statement of Comprehensive Income** for the year ended 30 June 2011

	<b>2011</b>	2010
	<b>£m</b>	£m
<b>Profit for the year attributable to equity shareholders of the parent company</b>	<b>810</b>	878
<b>Other comprehensive income</b>		
<b>Amounts recognised directly in equity</b>		
Exchange differences on translation of foreign operations	<b>(8)</b>	8
Gain on revaluation of available-for-sale investments	<b>59</b>	117
(Loss) gain on cash flow hedges	<b>(130)</b>	160
Tax on cash flow hedges	<b>36</b>	(45)
	<b>(43)</b>	240
<b>Amounts reclassified and reported in the income statement</b>		
Gain (loss) on cash flow hedges	<b>42</b>	(89)
Tax on cash flow hedges	<b>(11)</b>	25
Transfer to income statement on disposal of available-for-sale investment	<b>-</b>	(115)
Transfer to income statement on disposal of foreign operations	<b>4</b>	-
	<b>35</b>	(179)
<b>Other comprehensive (loss) income for the year (net of tax)</b>	<b>(8)</b>	61
<b>Total comprehensive income for the year attributable to equity shareholders of the parent company</b>	<b>802</b>	939

**Consolidated Balance Sheet** as at 30 June 2011

	Notes	2011 £m	2010 £m
<b>Non-current assets</b>			
Goodwill	10	944	852
Intangible assets	11	462	336
Property, plant and equipment	12	896	899
Investments in joint ventures and associates	13	151	149
Available-for-sale investments	14	215	182
Deferred tax assets	15	69	-
Trade and other receivables	17	13	18
Derivative financial assets		275	382
		<b>3,025</b>	2,818
<b>Current assets</b>			
Inventories	16	375	343
Trade and other receivables	17	592	538
Short-term deposits		430	400
Cash and cash equivalents		921	649
Derivative financial assets		11	56
		<b>2,329</b>	1,986
<b>Total assets</b>		<b>5,354</b>	4,804
<b>Current liabilities</b>			
Borrowings	20	8	8
Trade and other payables	18	1,675	1,526
Current tax liabilities		187	136
Provisions	19	21	27
Derivative financial liabilities		21	10
		<b>1,912</b>	1,707
<b>Non-current liabilities</b>			
Borrowings	20	2,325	2,450
Trade and other payables	18	26	52
Provisions	19	9	11
Derivative financial liabilities		47	17
Deferred tax liabilities	15	-	7
		<b>2,407</b>	2,537
<b>Total liabilities</b>		<b>4,319</b>	4,244
Share capital	21	876	876
Share premium		1,437	1,437
Reserves		(1,278)	(1,753)
<b>Total equity attributable to equity shareholders of the parent company</b>		<b>1,035</b>	560
<b>Total liabilities and shareholders' equity</b>		<b>5,354</b>	4,804

**Consolidated Cash Flow Statement** for the year ended 30 June 2011

		<b>2011</b>	2010
		<b>£m</b>	£m
<b>Continuing operations</b>			
<b>Cash flows from operating activities</b>			
Cash generated from operations	22	<b>1,569</b>	1,626
Interest received		<b>7</b>	57
Taxation paid		<b>(219)</b>	(319)
<b>Net cash from operating activities</b>		<b>1,357</b>	1,364
<b>Cash flows from investing activities</b>			
Dividends received from joint ventures and associates		<b>29</b>	30
Net funding to joint ventures and associates		<b>(4)</b>	(1)
Proceeds on disposal of investments		<b>32</b>	196
Purchase of property, plant and equipment		<b>(197)</b>	(246)
Purchase of intangible assets		<b>(226)</b>	(183)
Purchase of subsidiaries (net of cash and cash equivalents purchased)		<b>(222)</b>	-
Proceeds on disposal of property, plant and equipment		<b>-</b>	1
Increase in short-term deposits		<b>(30)</b>	(310)
<b>Net cash used in investing activities</b>		<b>(618)</b>	(513)
<b>Cash flows from financing activities</b>			
Repayment of borrowings		<b>-</b>	(495)
Repayment of obligations under finance leases		<b>(1)</b>	-
Proceeds from disposal of shares in Employee Share Ownership Plan ("ESOP")		<b>32</b>	16
Purchase of own shares for ESOP		<b>(90)</b>	(56)
Interest paid		<b>(124)</b>	(156)
Dividends paid to shareholders		<b>(353)</b>	(314)
<b>Net cash used in financing activities</b>		<b>(536)</b>	(1,005)
<b>Net increase (decrease) in cash and cash equivalents from continuing operations</b>		<b>203</b>	(154)
<b>Cash generated from (used in) discontinued operations</b>	7	<b>69</b>	(8)
Cash and cash equivalents at the beginning of the year		<b>649</b>	811
<b>Cash and cash equivalents at the end of the year</b>		<b>921</b>	649

Consolidated Statement of Changes in Equity for the year ended 30 June 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' (deficit) equity £m
<b>At 1 July 2009</b>	<b>876</b>	<b>1,437</b>	<b>(73)</b>	<b>26</b>	<b>96</b>	<b>354</b>	<b>(2,780)</b>	<b>(64)</b>
Profit for the year	-	-	-	-	-	-	878	878
Exchange differences on translation of foreign operations	-	-	-	-	-	8	-	8
Revaluation of available-for-sale investment	-	-	-	-	117	-	-	117
Transfer to income statement on disposal of available-for-sale investment	-	-	-	-	(115)	-	-	(115)
Recognition and transfer of cash flow hedges	-	-	-	71	-	-	-	71
Tax on items taken directly to equity	-	-	-	(20)	-	-	-	(20)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51</b>	<b>2</b>	<b>8</b>	<b>878</b>	<b>939</b>
Share-based payment	-	-	26	-	-	-	(36)	(10)
Tax on items taken directly to equity	-	-	-	-	-	-	9	9
Dividends	-	-	-	-	-	-	(314)	(314)
<b>At 30 June 2010</b>	<b>876</b>	<b>1,437</b>	<b>(47)</b>	<b>77</b>	<b>98</b>	<b>362</b>	<b>(2,243)</b>	<b>560</b>
Profit for the year	-	-	-	-	-	-	810	810
Exchange differences on translation of foreign operations	-	-	-	-	-	(8)	-	(8)
Transfer to income statement on disposal of foreign operations	-	-	-	-	-	4	-	4
Revaluation of available-for-sale investment	-	-	-	-	59	-	-	59
Recognition and transfer of cash flow hedges	-	-	-	(88)	-	-	-	(88)
Tax on items taken directly to equity	-	-	-	25	-	-	-	25
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(63)</b>	<b>59</b>	<b>(4)</b>	<b>810</b>	<b>802</b>
Share-based payment	-	-	(60)	-	-	-	70	10
Tax on items taken directly to equity	-	-	-	-	-	-	19	19
Purchase of non-controlling interest	-	-	-	-	-	-	(3)	(3)
Dividends	-	-	-	-	-	-	(353)	(353)
<b>At 30 June 2011</b>	<b>876</b>	<b>1,437</b>	<b>(107)</b>	<b>14</b>	<b>157</b>	<b>358</b>	<b>(1,700)</b>	<b>1,035</b>

## Notes to the consolidated financial information

The financial information set out in this preliminary announcement does not constitute statutory financial statements for the years ended 30 June 2011 or 2010, for the purpose of the Companies Act 2006, but is derived from those financial statements. Statutory financial statements for 2011, on which the Group's auditors have given an unqualified report which does not contain statements under s. 498(2) or (3) of the Companies Act 2006, will be filed with the Registrar of Companies prior to the Group's next annual general meeting. Statutory financial statements for 2010 have been filed with the Registrar of Companies. The Group's auditors have reported on those accounts: their reports were unqualified and did not contain statements under s. 498(2) or (3) of the Companies Act 2006.

Whilst the financial information included in this press release has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union and as issued by the International Accounting Standards Board, this announcement does not itself contain sufficient information to comply with IFRS. The accounting policies applied in preparing this financial information are consistent with the Group's financial statements for the year ended 30 June 2010 except in relation to the mandatory adoption of new accounting standards and revisions and amendments to existing accounting standards, none of which had any significant impact on the Group's results or financial position.

The Group maintains a 52 or 53 week year ending on the Sunday nearest to 30 June in each year. In fiscal year 2011, this date was 3 July 2011, this being a 53 week year (fiscal year 2010: 27 June 2010, 52 week year). For convenience purposes, the Group continues to date its consolidated financial statements as at 30 June.

### 1 Revenue

	2011	2010
	£m	£m
<b>Continuing operations</b>		
Retail subscription	5,455	4,761
Wholesale subscription	323	238
Advertising	458	340
Installation, hardware and service	112	174
Other	249	196
	<b>6,597</b>	<b>5,709</b>

To provide a more relevant presentation, management has reclassified online properties and Sky Magazine advertising revenue of £19 million in the current period and £21 million in the comparative period from other revenue to advertising revenue.

### 2 Operating expense

	2011	2010
	£m	£m
<b>Continuing operations</b>		
Programming	2,188	1,902
Direct networks	584	440
Transmission, technology and fixed networks	395	307
Marketing <sup>(i)</sup>	1,179	1,115
Subscriber management and supply chain <sup>(iii)(iv)</sup>	596	634
Administration <sup>(i)(iii)(v)</sup>	582	467
	<b>5,524</b>	<b>4,865</b>

- (i) Included within administration costs for the year ended 30 June 2011 is £26 million of restructuring costs arising on the acquisition of Living TV, which comprise principally redundancy payments and the early termination of a pre-acquisition contract and £15 million of costs in relation to the News Corporation proposal.
- (ii) Included within marketing costs for the year ended 30 June 2011 is a credit of £41 million in relation to import duty on set-top boxes paid out in prior years. This duty is recoverable due to the judgment given by the Court of Justice of the European Union ("ECJ") on 14 April 2011.
- (iii) Included within operating expense for the year ended 30 June 2010 is £32 million of expense relating to a restructuring exercise of which £22 million was recorded within subscriber management and supply chain costs and related to the impairment of assets associated with Picnic (the potential launch of a subscription television service on DTT) and £10 million was recorded within administration costs and related to restructuring costs which comprise principally redundancy payments.
- (iv) Included within subscriber management and supply chain costs for the year ended 30 June 2010 is a £5 million credit related to the cancellation of accounts payable on settlement of the claim against EDS.
- (v) Included within administration costs for the year ended 30 June 2010 is £1 million of expense relating to legal costs incurred on the Group's claim against EDS.

### 3 Litigation settlement income and investment income on litigation settlement

In the prior year, on 26 January 2010, the Technology and Construction Court ("TCC") gave judgment in the litigation between Electronic Data Systems ("EDS") and the Group. The litigation related to EDS' former role as a supplier to the Group as part of the Group's customer relationship management project.

On 7 June 2010, EDS and the Group fully and finally settled the litigation between them and all related claims (including for damages, costs and interest) for a total amount of £318 million.

In the prior year, the Group recognised £49 million of these payments in investment income on litigation settlement. This allocation was based on the Group's estimate of the TCC's likely award of interest on its lost cash flows since the end of EDS' role as a supplier to the Group in March 2002.

The balance of £269 million was recognised in litigation settlement income, representing settlement for costs and damages.

### 4 Investment income and finance costs

	2011	2010
	£m	£m
<b>Investment income</b>		
Cash, cash equivalents and short-term deposits	9	3
	<b>2011</b>	2010
	<b>£m</b>	<b>£m</b>
<b>Finance costs</b>		
<b>- Interest payable and similar charges</b>		
£750 million/£1 billion Revolving Credit Facilities ("RCF")	<b>(6)</b>	(11)
Guaranteed Notes	<b>(116)</b>	(116)
Finance lease interest	<b>(7)</b>	(8)
	<b>(129)</b>	(135)
<b>- Other finance income (expense)</b>		
Remeasurement of borrowings and borrowings-related derivative financial instruments <sup>(i)</sup>	<b>17</b>	16
Remeasurement of other derivative financial instruments <sup>(i)</sup>	<b>(2)</b>	(1)
(Loss) gain arising on derivatives in a designated fair value hedge accounting relationship	<b>(4)</b>	36
Gain (loss) arising on adjustment for hedged item in a designated fair value hedge accounting relationship	<b>7</b>	(38)
	<b>18</b>	13
	<b>(111)</b>	(122)

(i) Not qualifying for hedge accounting.

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.3% (2010: 5.3%) to expenditure on such assets. The amount capitalised in the current year amounted to less than £1 million (2010: less than £1 million).

### 5 Profit on disposal of available-for-sale investment

On 5 April 2011, the Group sold its available-for-sale investment in Shine Limited ("Shine") for a maximum consideration of £36 million, of which £31 million has been received to date. The remaining consideration is contingent on certain post transaction criteria and is currently held in escrow. At the date of disposal, the Group estimated the fair value of the contingent consideration to be £4 million and recorded a profit on disposal of £9 million, being the excess of the recognised consideration above the carrying value of the shares.

In the prior year, on 8 February 2010, the Group placed a shareholding of 10.4% in ITV in accordance with the final undertakings given by the Group to the Secretary of State for Business, Innovation and Skills relating to the Group's investment in ITV. The placing by the Group of 404,362,095 ITV shares at 48.5 pence per share resulted in aggregate consideration of £196 million. A profit of £115 million was realised on disposal being the excess of the consideration above the impaired value of the shares. The Group continues to hold just under 7.5% of the shares in ITV.

## 6 Taxation

### Taxation recognised in the income statement

	2011	2010
	£m	£m
<b>Current tax expense</b>		
Current year	<b>386</b>	305
Adjustment in respect of prior years	<b>(115)</b>	(23)
<b>Total current tax charge<sup>(i)</sup></b>	<b>271</b>	282
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	<b>(17)</b>	9
Adjustment in respect of prior years	<b>10</b>	4
<b>Total deferred tax (credit) charge</b>	<b>(7)</b>	13
<b>Taxation</b>	<b>264</b>	295
Continuing operations	<b>256</b>	294
Discontinued operations (see note 7)	<b>8</b>	1
	<b>264</b>	295

- (i) This includes the tax effect of agreeing a number of historic issues with HMRC resulting in a credit to prior year tax liability and a debit to current year tax liability.

Taxation relates to a £264 million UK corporation tax charge (2010: £288 million) and a Luxembourg corporation tax charge of nil (2010: £7 million).

## 7 Discontinued operations

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

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

Easynet represented a separate major line of business for the Group. As a result its operations have been treated as discontinued for the year ended 30 June 2011 and the year ended 30 June 2010. A single amount is shown on the face of the consolidated income statement comprising the post-tax result of discontinued operations and the post-tax profit recognised on the disposal of the discontinued operation.

A pre-tax profit of £62 million arose on the disposal of Easynet being the net proceeds of disposal less the carrying amount of Easynet's net liabilities and attributable goodwill.

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

	2011 <sup>(i)</sup>	2010
	£m	£m
Revenue	<b>32</b>	203
Operating expense	<b>(34)</b>	(220)
<b>Operating loss</b>	<b>(2)</b>	(17)
Profit on disposal	<b>62</b>	-
<b>Profit (loss) before tax</b>	<b>60</b>	(17)
Attributable tax expense <sup>(ii)</sup>	<b>(8)</b>	(1)
<b>Profit (loss) for the year from discontinued operations</b>	<b>52</b>	(18)

- (i) Results for the year ended 30 June 2011 include the results of discontinued operations up to the date of disposal (1 September 2010).
- (ii) Attributable tax expense comprises nil (2010: £1 million) in respect of operating activities and £8 million (2010: nil) arising as a result of the disposal.

During the year, cash flows attributable to Easynet comprised a net operating cash outflow of £7 million (2010: inflow of £7 million) and a net cash inflow in respect of investing activities of £76 million (2010: outflow of £15 million).

## 8 Earnings per share

The weighted average number of shares for the year was:

	2011	2010
	Millions of shares	Millions of shares
Ordinary shares	1,753	1,753
ESOP trust ordinary shares	(10)	(10)
<b>Basic shares</b>	<b>1,743</b>	<b>1,743</b>
Dilutive ordinary shares from share options	20	11
<b>Diluted shares</b>	<b>1,763</b>	<b>1,754</b>

The calculation of diluted earnings per share excludes 2 million share options (2010: 11 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 year.

Basic and diluted earnings per share are calculated by dividing the profit or loss for the year into the weighted average number of shares for the year. In order to provide a measure of underlying performance, management have chosen to present an adjusted profit for the year 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	2010
	£m	£m
<b>Reconciliation from profit for the year from continuing operations to adjusted profit for the year from continuing operations</b>		
Profit for the year from continuing operations	758	896
Living TV restructuring costs (see note 2)	26	-
Costs in relation to News Corporation proposal (see note 2)	15	-
Recovery of import duty on set-top boxes (see note 2)	(41)	-
Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness (see note 4)	(18)	(13)
Profit on disposal of available-for-sale investment (see note 5)	(9)	(115)
Litigation settlement income relating to claim against EDS (see note 3)	-	(269)
Investment income on litigation settlement (see note 3)	-	(49)
Legal costs relating to claim against EDS (see note 2)	-	1
Cancellation of accounts payable on settlement of claim against EDS (see note 2)	-	(5)
Cost relating to restructuring exercise (see note 2)	-	32
Receipt on closure of joint venture (see note 13)	-	(3)
Tax credit on settlement of liability <sup>(i)</sup>	(15)	-
Tax effect of above items	9	85
<b>Adjusted profit for the year from continuing operations</b>	<b>725</b>	<b>560</b>

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

## 9 Dividends

	2011	2010
	£m	£m
<b>Dividends declared and paid during the year</b>		
2009 Final dividend paid: 10.10p per ordinary share	-	176
2010 Interim dividend paid: 7.875p per ordinary share	-	138
2010 Final dividend paid: 11.525p per ordinary share	201	-
2011 Interim dividend paid: 8.74p per ordinary share	152	-
	<b>353</b>	<b>314</b>

The 2011 final dividend proposed is 14.54 pence per ordinary share being £253 million. The dividend was not declared at the balance sheet date and is therefore not recognised as a liability as at 30 June 2011.

## 10 Goodwill

	£m
<b>Carrying value</b>	
At 1 July 2010	<b>852</b>
Purchase of Living TV Group ("Living TV")	79
Purchase of The Cloud Networks Limited ("The Cloud")	38
Other purchases	5
Disposal of Easynet Enterprise	(30)
<b>At 30 June 2011</b>	<b>944</b>

## 11 Intangible Assets

	Internally generated intangible assets £m	Software development (external) £m	Software licenses £m	Other intangible assets £m	Internally generated intangible assets not yet available for use £m	Acquired intangible assets not yet available for use £m	Total £m
<b>Cost</b>							
At 1 July 2010	174	305	120	113	32	99	843
Additions from business combinations	-	-	2	90	-	-	92
Additions	49	22	3	60	14	67	215
Disposals	(23)	(51)	(22)	(1)	-	-	(97)
Disposals of discontinued operations	(5)	(2)	(17)	(19)	-	-	(43)
Transfers	19	73	2	-	(20)	(74)	-
<b>At 30 June 2011</b>	<b>214</b>	<b>347</b>	<b>88</b>	<b>243</b>	<b>26</b>	<b>92</b>	<b>1,010</b>
<b>Amortisation</b>							
At 1 July 2010	92	255	81	79	-	-	507
Amortisation	35	53	16	53	-	-	157
Impairments	2	1	-	-	-	-	3
Disposals	(23)	(51)	(22)	(1)	-	-	(97)
Disposals of discontinued operations	(3)	(2)	(11)	(6)	-	-	(22)
<b>At 30 June 2011</b>	<b>103</b>	<b>256</b>	<b>64</b>	<b>125</b>	<b>-</b>	<b>-</b>	<b>548</b>
<b>Carrying amounts</b>							
At 1 July 2010	82	50	39	34	32	99	336
<b>At 30 June 2011</b>	<b>111</b>	<b>91</b>	<b>24</b>	<b>118</b>	<b>26</b>	<b>92</b>	<b>462</b>

## 12 Property, plant and equipment

	Freehold land and buildings £m	Leasehold improvements £m	Equipment, furniture and fixtures £m	Assets not yet available for use £m	Total £m
<b>Cost</b>					
At 1 July 2010	186	73	1,040	221	1,520
Additions from business combinations	-	-	3	-	3
Additions	2	2	167	39	210
Disposals	(1)	(2)	(18)	-	(21)
Disposals of discontinued operations	-	(14)	(136)	(2)	(152)
Transfers	145	-	83	(228)	-
<b>At 30 June 2011</b>	<b>332</b>	<b>59</b>	<b>1,139</b>	<b>30</b>	<b>1,560</b>
<b>Depreciation</b>					
At 1 July 2010	26	27	568	-	621
Depreciation	6	1	167	-	174
Impairments	-	-	2	-	2
Disposals	(1)	(2)	(18)	-	(21)
Disposals of discontinued operations	-	(4)	(108)	-	(112)
<b>At 30 June 2011</b>	<b>31</b>	<b>22</b>	<b>611</b>	<b>-</b>	<b>664</b>
<b>Carrying amounts</b>					
At 1 July 2010	160	46	472	221	899
<b>At 30 June 2011</b>	<b>301</b>	<b>37</b>	<b>528</b>	<b>30</b>	<b>896</b>

## 13 Investments in joint ventures and associates

The movement in joint ventures and associates during the year was as follows:

	2011 £m	2010 £m
Share of net assets		
At 1 July	149	135
Movement in net assets		
- Funding net of repayments	4	1
- Dividends received	(29)	(30)
- Share of profits <sup>(i)</sup>	34	32
- Exchange differences on translation of foreign joint ventures and associates	(7)	11
<b>At 30 June</b>	<b>151</b>	<b>149</b>

(i) Included within the share of profits for the year ended 30 June 2010 is £3 million related to an amount received on the closure of one of the Group's joint ventures.

## 14 Available-for-sale investments

	2011	2010
	£m	£m
Investment in ITV at cost	946	946
Impairment of ITV investment	(807)	(807)
Realised gain on ITV investment	115	115
Part disposal of ITV investment	(196)	(196)
Unrealised gain on ITV investment	157	98
<b>Fair value of ITV investment</b>	<b>215</b>	<b>156</b>
Other investments at cost	-	26
	<b>215</b>	<b>182</b>

On 17 November 2006, the Group acquired 696 million shares in ITV, at a price of 135 pence per share, representing 17.9% of the issued capital of ITV, for a total consideration of £946 million including fees and taxes. The Group's investment in ITV is carried at fair value. The fair value is determined with reference to its equity share price at the balance sheet date. An impairment in the carrying value was first recorded at 31 December 2007, due to the significant and prolonged decline in the equity share price. In accordance with IFRS, the Group has continued to review that carrying value and has recognised a cumulative impairment loss of £807 million in fiscal 2008 and fiscal 2009. This impairment loss was determined with reference to ITV's closing equity share price of 20.0 pence at 27 March 2009, the last trading day of the Group's third fiscal quarter in fiscal 2009. In line with IFRS, all subsequent increases in the fair value of the ITV investment above this impaired value have been recorded in the available-for-sale reserve.

On 8 February 2010 the Group placed a shareholding of 10.4% in ITV in accordance with the final undertakings given by the Group to the Secretary of State for Business, Innovation and Skills relating to the Group's investment in ITV. The placing by the Group of 404,362,095 ITV shares at 48.5 pence per share resulted in aggregate consideration of £196 million. A profit of £115 million was realised on disposal being the excess of the consideration above the impaired value of the shares. The Group continues to hold just under 7.5% of the shares in ITV.

The disposal was exempt from tax under the provisions of the Substantial Shareholding Exemption (SSE) and as such the SSE provisions would prevent any capital loss arising for tax purposes.

On 5 April 2011, the Group sold its available-for-sale investment in Shine. Further details of this transaction are disclosed in note 5.

## 15 Deferred tax

### Recognised deferred tax (liabilities) assets

	Accelerated tax depreciation £m	Tax losses £m	Short-term temporary differences £m	Share-based payments temporary differences £m	Financial instruments temporary differences £m	Total £m
At 1 July 2010	(8)	-	6	25	(30)	(7)
(Charge) credit to income	(3)	1	(2)	18	(5)	9
Credit to equity	-	-	-	19	24	43
Acquisitions of subsidiaries	22	-	-	-	-	22
Disposal of subsidiary	3	-	2	-	-	5
Effect of change in tax rate						
- Income	-	-	-	(2)	-	(2)
- Equity	-	-	-	(2)	1	(1)
<b>At 30 June 2011</b>	<b>14</b>	<b>1</b>	<b>6</b>	<b>58</b>	<b>(10)</b>	<b>69</b>

## 16 Inventories

	2011	2010
	£m	£m
Television programme rights	265	255
Set-top boxes and related equipment	98	73
Other inventories	12	15
	<b>375</b>	<b>343</b>

**17 Trade and other receivables**

	<b>2011</b>	2010
	<b>£m</b>	£m
Net trade receivables	<b>79</b>	150
Amounts receivable from joint ventures and associates	<b>7</b>	6
Amounts receivable from other related parties	<b>10</b>	3
Prepayments	<b>239</b>	197
Accrued income	<b>152</b>	135
VAT	<b>17</b>	18
Other	<b>88</b>	29
Current trade and other receivables	<b>592</b>	538
Non-current prepayments	<b>13</b>	18
Total trade and other receivables	<b>605</b>	556

Included within current trade and other receivables is nil (2010: nil) which is due in more than one year.

**18 Trade and other payables**

	<b>2011</b>	2010
	<b>£m</b>	£m
Trade payables	<b>429</b>	419
Amounts owed to joint ventures and associates	<b>5</b>	4
Amounts owed to other related parties	<b>69</b>	70
VAT	<b>145</b>	105
Accruals	<b>654</b>	609
Deferred income	<b>286</b>	251
Other	<b>87</b>	68
Current trade and other payables	<b>1,675</b>	1,526
Amounts owed to other related parties	<b>5</b>	3
Trade payables	<b>12</b>	7
Deferred income	<b>7</b>	38
Other	<b>2</b>	4
Non-current trade and other payables	<b>26</b>	52
Total trade and other payables	<b>1,701</b>	1,578

**19 Provisions**

	<b>At 1 July 2010 £m</b>	<b>Provided during the year £m</b>	<b>Utilised during the year £m</b>	<b>At 30 June 2011 £m</b>
<b>Current liabilities</b>				
Restructuring provision	7	-	(7)	-
Acquired and acquisition related provisions	15	4	(8)	11
Other provisions	5	5	-	10
	<b>27</b>	<b>9</b>	<b>(15)</b>	<b>21</b>
<b>Non-current liabilities</b>				
Other provisions	<b>11</b>	<b>1</b>	<b>(3)</b>	<b>9</b>

## 20 Borrowings

	2011	2010
	£m	£m
<b>Current borrowings</b>		
Obligations under finance leases	8	8
<b>Non-current borrowings</b>		
Guaranteed Notes	2,264	2,388
Obligations under finance leases	61	62
	<b>2,325</b>	2,450

## 21 Share Capital

	2011	2010
	£m	£m
<b>Allotted, called-up and fully paid shares of 50p</b>		
1,752,842,599 (2010: 1,752,842,599)	876	876

## 22 Notes to the Consolidated Cash Flow Statement

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

	2011	2010
	£m	£m
<b>Profit before taxation</b>	<b>1,014</b>	1,190
Depreciation and impairment of property, plant and equipment	173	154
Amortisation and impairment of intangible assets	159	184
Profit on disposal of available-for-sale investments	(9)	(115)
Share-based payment expense	69	35
Net finance costs	102	70
Share of results of joint ventures and associates	(34)	(32)
	<b>1,474</b>	1,486
(Increase) decrease in trade and other receivables	(59)	62
Decrease in inventories	6	43
Increase in trade and other payables	158	31
(Decrease) increase in provisions	(8)	7
Decrease in derivative financial instruments	(2)	(3)
<b>Cash generated from continuing operations</b>	<b>1,569</b>	1,626

## 23 Events after the reporting period

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 £38.5 million has now been received and will exceed all of the Group's direct costs associated with the News Corporation proposal.

On 28 July 2011, the Board agreed to seek the necessary approvals to return £750 million of capital to shareholders via a share buy-back programme. Shareholder approvals will be sought at the Company's AGM on 29 November 2011. 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 will be the price payable by the Company in respect of the relevant market purchases. The agreement is conditional on the appropriate shareholder approvals being granted. 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.

## Appendix 3 – Non-GAAP measures

### Reconciliation of operating profit to adjusted operating profit and adjusted EBITDA (all from continuing operations) for the year ended 30 June 2011

	Notes	2011 £m	2010 £m
<b>Operating profit</b>		<b>1,073</b>	1,113
Living TV restructuring costs	2	26	-
Costs in relation to News Corporation proposal	2	15	-
Recovery of import duty on set-top boxes	2	(41)	-
Litigation settlement income relating to claim against EDS	3	-	(269)
Legal costs relating to claim against EDS	2	-	1
Cancellation of accounts payable on settlement of claim against EDS	2	-	(5)
Costs relating to restructuring exercise	2	-	32
<b>Adjusted EBITDA</b>		<b>1,405</b>	1,185
Depreciation and amortisation		(332)	(338)
Costs relating to restructuring exercise included within depreciation and amortisation <sup>(i)</sup>		-	25
<b>Adjusted operating profit</b>		<b>1,073</b>	872

- (i) Included within depreciation and amortisation for the year ended 30 June 2010 is £25 million of expense relating to a restructuring exercise of which £22 million related to the impairment of assets associated with Picnic (the potential launch of a subscription television service on DTT) and £3 million related to restructuring costs.

### Reconciliation of cash generated from operations to adjusted free cash flow (all from continuing operations) for the year ended 30 June 2011

	Notes	2011 £m	2010 £m
<b>Cash generated from operations</b>	22	<b>1,569</b>	1,626
Interest received		7	57
Taxation paid		(219)	(319)
Dividends received from joint ventures and associates		29	30
Net funding to joint ventures and associates		(4)	(1)
Purchase of property, plant and equipment		(197)	(246)
Purchase of intangible assets		(226)	(183)
Interest paid		(124)	(156)
<b>Free cash flow</b>		<b>835</b>	808
Living TV restructuring costs		26	-
Costs in relation to News Corporation proposal		2	-
Litigation settlement income relating to claim against EDS (after tax)		-	(229)
Legal costs relating to claim against EDS		-	1
Receipt on closure of joint venture		-	(3)
Cash paid relating to restructuring exercise		6	-
<b>Adjusted free cash flow</b>		<b>869</b>	577 <sup>(i)</sup>

- (i) The purchase of freehold land of £57 million has been removed from adjusting items in the comparative period.

**Net Debt**

As at 30 June 2011

	<b>2011</b>	2010
	<b>£m</b>	£m
Current borrowings	<b>8</b>	8
Non-current borrowings	<b>2,325</b>	2,450
<b>Debt</b>	<b>2,333</b>	2,458
Borrowings-related derivative financial instruments	<b>(232)</b>	(333)
Cash and cash equivalents	<b>(921)</b>	(649)
Short-term deposits	<b>(430)</b>	(400)
<b>Net debt</b>	<b>750</b>	1,076