BRITISH SKY BROADCASTING GROUP PLC
Form 6-K
August 04, 2004

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of

the Securities Exchange Act of 1934

For the month of August 2004
4 August 2004

BRITISH SKY BROADCASTING GROUP PLC
(Name of Registrant)

Grant Way, Isleworth, Middlesex, TW7 5QD England
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F

Form 20-F X   Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934

Yes   No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): Not Applicable

EXHIBIT INDEX

EXHIBIT NO. 1 Press release of British Sky Broadcasting Group plc announcing year end results released on 4 August 2004

4 August 2004

BRITISH SKY BROADCASTING GROUP PLC

Announcement of new long-term growth strategy

- Group sets new long-term operating targets:

  - 10 million direct-to-home ("DTH") subscribers in 2010
  - Multiroom penetration of 30% of DTH subscribers in 2010
  - Sky+ penetration of 25% of DTH subscribers in 2010

- Growth to be characterised by sustained and substantial profitability throughout the period

- Programme of up to GBP450 million additional capital investment over the next four years in infrastructure to support growth

- Financial strategy to include return of surplus capital to shareholders in addition to ordinary dividends

- Details of new strategy to be presented at 9.00 a.m. this morning

Announcement of results for the year ended 30 June 2004

- 7.4 million DTH subscribers at 30 June 2004, up 81,000 in the quarter

- Total revenues increases by 15% to GBP3,656 million

- Operating profit before goodwill and exceptional items increases by 65% to GBP600 million

- Profit after tax increases by 75% to GBP322 million

- Earnings per share before goodwill and exceptional items of 18.3 pence, up 8.1 pence

- Proposed final dividend payment of 3.25 pence per share generating a full year total dividend of 6.0 pence per share.

- Free cashflow of GBP676 million reduces net debt to GBP429 million

Commenting on the announcement, James Murdoch, Chief Executive said:

"This has been a year of good progress for BSkyB. We have reported the second full year of positive earnings since the launch of Sky digital and strong cash generation, confirming that the Group is in robust financial health with clear momentum on which to build for the future. Today's announcement of new long-term growth targets and a return of cash to shareholders demonstrates our confidence in the exciting growth potential of this business and our ongoing commitment to deliver value to shareholders. The framework that we are setting out today is one that is designed not only to ensure sustained and substantial profitability for the business, but also to position the Group to continue to be a dynamic leader in the rapidly evolving UK digital television sector."

Enquiries:

Analysts/Investors:

Neil Chugani	Tel:	020 7705 3837
Andrew Griffith	Tel:	020 7705 3118

E-mail: investor-relations@bskyb.com

Press:

Julian Eccles	Tel:	020 7705 3267
Robert Fraser	Tel:	020 7705 3036

E-mail: corporate.communications@bskyb.com

Finsbury:

Alice Macandrew	Tel:	020 7251 3801

James Murdoch, Chief Executive of BSkyB, will be giving a detailed strategy presentation and answering questions for analysts and investors at 09.00 a.m. (BST) today at The Old Billingsgate Market, 16 Lower Thames Street, London, EC3R 6DX and to press at 11.30 a.m. at the same venue.

The strategy presentation will be webcast live and will be available at www.sky.com/corporate

There will be a separate conference call for US analysts and investors at 10.00 a.m. (EST) today. Details of this call have been sent to US institutions and can be obtained from John Sutton at Taylor Rafferty on +1 212 889 4350.

PART I

STRATEGIC UPDATE

The Group has made significant progress towards the achievement of its existing short-term operating and financial targets and has attained a position of robust financial health. The Group now considers it appropriate to set out its strategy for the next phase of its growth.

Accordingly, the Chief Executive, James Murdoch, will today set out the Group's strategy to maximise value for shareholders by focusing on profitable subscriber growth. Sky will today announce the following new long-term operating targets:

- 10 million DTH subscribers in 2010;
- Multiroom penetration of 30% of DTH subscribers in 2010; and
- Sky+ penetration of 25% of DTH subscribers in 2010.

In the interim, the Group remains on track to meet its 8 million DTH subscriber target and its GBP400 ARPU target, both by December 2005.

The key themes of the presentation will be as follows:

The significant long-term potential for growth of pay television in the UK and Ireland

At 30 June 2004, pay television penetration of households in the UK and Ireland was 43%. The Group believes that, in the long-term, pay television penetration will be around 80% of UK television households. This implies that, over time, a further 10 million homes are expected to take pay television services. The Group believes that this view is supported by evidence from other television markets, particularly in the US; by demographic factors, including generational differences in the take-up of pay television; and by current and prospective technological advances and enhancements, such as the development of the Personal Video Recorder ("PVR") and high definition television. Sky is well placed to benefit from this growth.

The role and growth profile of free to air (FTA) digital reception

The Group believes that the development of digital television in the UK will be characterised by two distinct trends operating over different timescales, before reaching long-term equilibrium:

- The migration of FTA analogue homes to FTA digital reception equipment, over the next six to eight years, based on current expectations as to the timing of analogue terrestrial switch off ("Switch Off"); and

- The continuing long-term migration from FTA services to pay television, expected to take another 15 years to reach equilibrium. The Group believes that equilibrium represents maturity of the market when UK pay television penetration will be around 80% of households.

Between now and Switch Off, the Group expects rapid take up of digital FTA penetration as the replacement cycle for FTA analogue reception equipment is stimulated by the prospect of Switch Off.

Throughout this period and irrespective of the date of Switch Off, the long-term migration of FTA homes to pay television is expected to continue.

This means that after rapid growth in the next few years, digital FTA is likely to peak before falling back to around 20% over time, with the balance migrating to pay television.

Sky's clear strategies to stimulate consumer take up of pay television services

Given the size of the potential opportunity, Sky's focus will be on raising the rate of subscriber growth by addressing the key barriers to consumer take-up. The Group has several initiatives in place to address these barriers. These include:

- Reintroducing the Sky Brand;
- Emphasizing the broad range of existing entry points to pay television in terms of available packages;
- Improving segmentation of the addressable market by using a new prospects database which will facilitate more targeted marketing;
- Continuing disciplined investment in "must-see" programming;
- Introducing a wider range of new products, such as enhanced versions of Sky+ and a new high definition television service;

Sky believes that through innovative marketing initiatives, designed to address misconceptions about its services identified through extensive consumer research, most of the barriers to take up can be overcome with relatively few changes to its existing product proposition. The Group intends to invest in future growth by a sustained increase in its above-the-line marketing expenditure, which will initially rise by between 40% and 50% in 2005. Subscriber acquisition cost is expected to increase marginally in the short-term and by around 10% in the medium-term.

The investment requirements of the business during this phase of growth and the implications for the future development of the Group's profitability

The new growth strategies identified are designed to deliver improved subscriber and turnover growth and to drive significant long-term value. As a result, the Group intends to invest in the short-term to deliver this long-term growth. Consequently, the Group expects a short-term compression in operating margin in 2006, but expects to generate significant operating margin growth from 2007 onwards, thus creating a highly profitable business with greater scale in the longer-term.

In order to support its growth strategy, the Group announces the following capital expenditure programmes:

- Customer Relationship Management - The Group intends to continue the programme of work started in 2002, to maintain its first class customer service which is fundamental to the future of the business.

- Property - The Group intends to invest in a property programme to ensure that its Osterley campus is a flexible, efficient and environmentally-friendly place to work, and fully scalable with the long-term growth and expansion of the business.

- Advanced Technology Centre - The Group is currently building this facility as the final part of its business continuity programme to mitigate further any single points of failure in its Broadcast Network.

- Increased contact centre capacity and training facility - The Group has identified the need to increase capacity at its call centres to service future subscriber growth. The Group is also planning to build a new training centre for its customer-facing staff, that will help keep customer service standards at the forefront of the industry.

The capital expenditure on these projects is expected to total GBP450 million, which will be incurred over the next four years; this will be in addition to core capital expenditure, which is expected to remain at around GBP100 million annually. The peak of this expenditure is expected in 2005.

The Group's intention to return surplus capital to shareholders

Following this review of long-term strategy and the investment requirements of the business, the Board is considering the appropriate financial strategy and capital structure for the next phase of Sky's growth. This financial strategy will be consistent with the Group's desire to maintain an investment grade credit rating and retain financial flexibility going forward. The financial strategy is also expected to include returns to shareholders in addition to the ordinary dividend that was resumed earlier this year.

The proposed final dividend of 3.25 pence per share will result in a total dividend of 6 pence per share for the 2003/04 financial year. The Board expects to adopt a progressive dividend policy and intends that the total ordinary dividend in 2004/05 will grow broadly in line with Group earnings.

The Board is considering additional mechanisms to allow further distributions to shareholders in due course. As a first step, the Board intends to take advantage of the opportunity presented by November's Annual General Meeting by proposing resolutions renewing the annual authority previously granted to it by shareholders to buy back up to 5% of its issued ordinary share capital. If approved, the Group expects to utilise a proportion of the share repurchase authority during the remainder of the current financial year, subject to market conditions.

The Board also intends to put in place a Scheme of Arrangement that will enable additional returns of cash to shareholders by way of special dividends or share buy-backs in future and expects to put proposals to shareholders in due course.

PART II

FINANCIAL RESULTS FOR THE PERIOD TO 30 JUNE 2004

OVERVIEW

Sky has delivered another year of strong financial results, producing its second full year of positive earnings since the launch of Sky digital. This has been driven by double-digit revenue growth and strong operational gearing. Key operational metrics of subscriber growth, churn and ARPU for the quarter were negatively affected by the exceptionally strong confluence of sports programming on the BBC and ITV in the quarter. The European Football Championship Finals 2004 and the Wimbledon Tennis Championships were both broadcast in June 2004 and accentuated seasonal trends in subscriber behaviour.

Total revenues for the twelve months ending 30 June 2004 ("the year") increased by 15% over the twelve months to 30 June 2003 ("the comparable period") to GBP3,656 million. Total operating costs before goodwill and exceptional items increased by 8% to GBP3,056 million, generating an operating profit before goodwill and exceptional items of GBP600 million. The operating profit margin before goodwill and exceptional items was 16.4%, up from 11.4% in the comparable period.

Profit after tax increased by GBP138 million to GBP322 million. Earnings per share before goodwill and exceptional items was 18.3 pence, representing an increase of 79% on the comparable period.

OPERATING REVIEW

At 30 June 2004, the total number of direct-to-home ("DTH") digital satellite subscribers in the UK and Ireland was 7,355,000, representing a net increase of 81,000 subscribers in the three months to 30 June 2004 ("the quarter"). The mix of packages taken by subscribers continues to be weighted towards premium packages, with 52.4% of all DTH subscribers taking the top tier Sky World package at the end of the year, a decline of just one percentage point from the level of 53.4% at 30 June 2003.

The total number of households in the UK and Ireland receiving one or more Sky channels increased to over 14 million in the quarter. This was driven by DTH growth, a small increase in the number of households subscribing to a television service via cable, and an increase in the number of households receiving the Freeview free-to-air ("FTA") digital terrestrial channels, as FTA-only homes continued to replace analogue with digital reception equipment.

Sky announced on 9 June 2004 that it will be introducing a Free Satellite service, offering access to almost 200 television and radio channels and interactive services, to be available later this year, without a monthly subscription fee. Consumers will be able to purchase a package of reception equipment, including a viewing card and professional installation, direct from Sky for a cost of approximately GBP150. This offers an easy upgrade path to a Sky subscription for viewers who choose subsequently to add a pay television service to their viewing options.

DTH churn for the year stands at 9.7%. The modest increase on last quarter's churn figure is partly attributable to the concentration of sport on the terrestrial channels during summer 2004.

Annualised average revenue per DTH subscriber ("ARPU") in the quarter was GBP380, an increase of GBP14 over the three months to 30 June 2003. The Group expects the next increase in ARPU to take place during the second quarter of the 2005 financial year as a result of the recently announced changes in UK and Ireland retail pricing, which start to become effective from September 2004.

The number of Sky+ households continued to grow strongly, increasing by 75,000 in the quarter to reach 397,000. Sky+ continues to drive new subscribers to Sky, with 22% of new Sky+ customers in the quarter being new to Sky digital. The growth in Sky+ penetration continues to drive the uptake of the Multiroom product, with the number of households taking two or more digiboxes increasing from 270,000 to 293,000 in the quarter.

Programming

Multichannel television's combined share of total television audience continues to grow, increasing by 9% over the previous year to 26% in the quarter, and overtaking BBC1's share (25%) for the first time ever, according to viewing figures from the Broadcasters' Audience Research Board ("BARB") at 30 June 2004. Despite the intense competition in the quarter from one-off events on terrestrial channels, the viewing share of Sky channels across all UK television homes has been maintained comfortably above 6%.

Sky Sports enjoyed another strong year, with an 11% increase in viewing share across UK television homes over the comparable period. The fourth quarter delivered further strong audience figures, with eight live football finals shown in just 14 days during May, including Sky's first UEFA Champions League Final. The quarter also brought the climax of the Heineken Cup, Rugby Union's premier European competition, and the conclusion of the England cricket team's successful West Indies tour.

The 2004/05 football season, which starts in August 2004, will be the most televised on Sky Sports, with viewers offered over 450 live matches. With the commencement of the new Football Association Premier League broadcast contracts, Sky Sports will now show 88 live games from the Barclays Premiership, up from 66, and an additional 50 live Premiership games, up from 40, will be offered on the pay-per-view service, PREMPLUS. A new interactive service, Football First, will offer one match per week in full on a delayed basis plus extended highlights of every match played that day. Sky digital viewers can choose which game they watch through the interactive service, Sky Sports Active.

Sky Movies' viewing share for the quarter was 3.2% in multichannel homes. Over the Easter weekend, the multi-start premiere of 'Harry Potter and the Chamber of Secrets' achieved a total audience of over 900,000 viewers. Following the success of shows from the US such as 'Nip/Tuck' and '24', Sky One continues to add unique programming with the HBO production, 'Deadwood', to be launched exclusively on Sky One in September 2004, and 'Battlestar Gallactica'. Significant one-off events continue to differentiate Sky One, with 'Rebecca Loos: My Story' attracting 1.7 million viewers in April, and an episode of 'The Simpsons' featuring Tony Blair also attracting over one million viewers.

Sky was awarded the contract to supply five with its news service in March 2004, and Sky News launched a dedicated news service for Ireland on 10 May 2004. One of the highlights in the quarter was Sky News' coverage of the celebrations of the 60th anniversary of D-Day.

FINANCIAL REVIEW

Turnover

Total revenues grew by 15% on the comparable period to GBP3,656 million, reflecting continued growth in the average number of DTH subscribers, the second successive year of double-digit advertising revenue growth, and higher interactive revenues.

DTH revenues for the year increased by 14% from GBP2,341 million for the comparable period to GBP2,660 million. This was principally due to the 10% growth in the average number of DTH subscribers and the 4% increase in average DTH revenue per subscriber.

Advertising revenues continued to outperform the advertising market, increasing by 10% on the comparable period to GBP312 million, principally due to growth of 6% in the Group's share of total UK advertising revenues. The Group remains confident of outperforming UK advertising market growth for the remainder of this calendar year.

Wholesale revenues increased to GBP215 million for the year, an increase of 6%

on the comparable period. This was mainly attributable to the one-off receipt of audit monies from ntl as disclosed in the first quarter, and increases to the average revenue per subscriber resulting from changes to wholesale pricing from January 2004.

Total interactive revenues, which includes both Sky Active revenues and betting revenues, increased by 41% to GBP307 million.

Sky Active revenues increased by 15% on the comparable period to GBP116 million. This was due to a combination of increases in retail revenues through SkyBuy, third party betting, revenues from interactive advertising, premium rate telephony revenues and platform access fees paid by third party broadcasters and interactive service providers.

SkyBet revenues increased by 63% on the comparable period to GBP191 million, driven mainly by the 85% increase in the total number of bets placed across all platforms. Consequently, betting costs, which include payouts, duty, levies and taxes, increased by GBP67 million to GBP175 million.

Programming costs

Programming costs for the year increased by GBP107 million on the comparable period to GBP1,711 million. Gross margin (total revenues less total programming costs) for the year increased to 53.2% from 49.7% in the comparable period.

Sports costs, which accounted for 75% of the total increase in programming costs, grew by GBP80 million to GBP803 million, driven by contractual increases in rights costs and the addition of UEFA Champions League football this season.

A decrease in movie costs of GBP4 million on the comparable period to GBP393 million reflected continued weakness of the US dollar and therefore a favourable movement in the average rate at which the Group was able to purchase dollars versus the comparable period. These savings were partially offset by increased subscriber volumes and pricing increases in certain studio contracts.

Third party channel costs increased by GBP9 million on the comparable period to GBP360 million. Increases due to the 10% increase in the volume of DTH subscribers and new channels added to the platform, were partially offset by savings resulting from contractual renegotiations as the Group renewed carriage deals with MTV, Nickelodeon, Paramount, Music Choice, E4, Film Four and Eurosport. As a result, the aggregate monthly cost of third party channels for the fourth quarter was GBP4.19 per subscriber, a reduction of 43 pence since its peak at 31 December 2002.

Entertainment and News costs increased by GBP22 million on the comparable period to GBP155 million. This was mainly due to re-evaluation of entertainment programme stock balances during the year which resulted in the acceleration of certain amortisation charges totalling GBP17 million, in accordance with the Group's policy in respect of programme stock accounting.

Other operating costs

Marketing costs for the year were GBP396 million, a decrease of GBP4 million on the comparable period. This decrease was predominantly driven by a GBP22 million reduction in acquisition marketing costs to GBP256 million, due to lower set-top box unit prices and fewer installations. Retention marketing also decreased by GBP2 million on the comparable period to GBP32 million. These decreases were partly offset by increased above-the-line expenditure, up GBP10 million on the comparable period to GBP49 million, and other marketing costs up GBP10 million to GBP59 million, as a result of the Sky+ and programming campaigns which have been run this year. Average subscriber acquisition costs ("SAC") remained around GBP200 for the year.

Subscriber management costs, which include Customer Relationship Management ("CRM") costs, supply chain costs, and associated depreciation, increased by GBP47 million on the comparable period to GBP371 million. Supply chain costs, including the cost of goods sold in respect of Sky+ and Multiroom set-top boxes, represent 70% of the increase, reflecting the strong growth in Sky+ customers during the year. Also included within supply chain costs is the cost of stock for SkyBuy, the Group's retail operation, which increased by GBP12 million in the year. CRM costs represent 19% of the increase in subscriber management costs, but the CRM cost per subscriber has declined by 3%. Depreciation costs increased by GBP5 million on the comparable period, mainly due to increased depreciation in respect of CRM assets.

Transmission and related costs increased by GBP3 million on the comparable period to GBP146 million.

Administration costs before goodwill and exceptional items increased by GBP14 million on the comparable period to GBP257 million, due mainly to increased technology and facilities costs and costs resulting from increased compliance obligations.

Goodwill

Goodwill amortisation decreased by GBP2 million on the comparable period to GBP119 million. This was principally due to the GBP5 million provision made in the comparable period against goodwill which originally arose on the acquisition of OPTA Index Limited.

Exceptional items

Total exceptional items for the year amounted to a net credit of GBP75 million. This consists of a GBP49 million profit on disposal of the Group's 20% shareholding in QVC (UK); a profit on disposal of GBP2 million and a provision release of GBP33 million relating to the Group's sale of its 9.9% shareholding in Manchester United plc; partly offset by a GBP9 million provision against the Group's remaining football club investments, as disclosed in the second quarter.

Joint ventures and associates

The Group's share of the net operating losses of joint ventures and associates before goodwill increased to GBP5 million in the year. This mainly reflects a one-off write down of GBP11 million by attheraces ("ATR") in respect of capitalised infrastructure costs and media rights prepayments.

On 30 April 2004, Sky and Arena Leisure plc acquired Channel 4's shares and loan notes in ATR, increasing the Group's shareholding to 50%. At the same time, the shareholder loans were capitalised, giving rise to negative goodwill of GBP11 million which was immediately released to the profit and loss account. The remaining joint ventures' goodwill amortised during the year principally relates to goodwill that arose from the purchase of a 50% stake in Artsworld in December 2003.

Interest

Total net interest payable for the year decreased by GBP33 million on the comparable period to GBP81 million as a result of the lower level of indebtedness. On 29 June 2004, a GBP200 million tranche of the Group's revolving credit facility, which was undrawn at this date, matured in accordance with its terms, leaving total available facilities going forward of GBP600 million. The GBP600 million facility, which was also undrawn as at 30 June 2004, is due to mature in March 2008.

Taxation

The total net tax charge for the period of GBP158 million includes a current tax charge of GBP127 million and a deferred tax charge of GBP34 million, offset by a GBP3 million net adjustment in respect of prior years. Excluding the effect of goodwill, joint ventures and exceptional items, the Group's underlying effective tax rate on ordinary activities was 30% during the period.

After removing the effect of deferred tax, the Group's share of joint ventures' tax, and prior year adjustments, the mainstream corporation tax liability for the period was GBP124 million. After utilising all the Group's remaining Advanced Corporation Tax, this was reduced to GBP70 million. At 30 June 2004, GBP35 million had been paid, with the balance of GBP35 million due for payment by 31 December 2004.

Earnings

The profit after tax for the year was GBP322 million. Earnings per share before goodwill and exceptional items was 18.3 pence compared to 10.2 pence (restated for the application of UITF 38) for the comparable period. At 30 June 2004, the total number of shares outstanding was 1,941,712,786.

Cashflow

Earnings before interest, tax, depreciation and amortisation ("EBITDA") before exceptional items increased by 52% on the comparable period to GBP702 million. With an additional GBP180 million of cash inflow, principally from a GBP182 million movement in working capital due to the timing of payments to third party channels and movie studios, the timing of DTH revenue collection, and the unwinding of programming prepayments, the Group generated an operating cash inflow of GBP882 million. This represents the conversion of 147% of operating profit before goodwill and exceptional items to operating cash inflow. After taking into account cash outflows, principally comprising capital expenditure of GBP132 million; net interest payments of GBP82 million; tax paid of GBP58 million (which includes GBP20 million relating to the 2003 financial year and GBP3 million consortium relief); dividends paid to shareholders in April 2004 of GBP53 million; and one-off receipts from the sale of the Group's shareholding in QVC (UK) (GBP49 million), Manchester United plc (GBP62 million) and Chelsea Village plc (GBP6 million), the Group reduced net debt by GBP676 million, from GBP1,105 million at 30 June 2003 to GBP429 million at 30 June 2004.

Dividend

In the light of the Group's continued strong cashflow generation, the Board proposes a final dividend of 3.25 pence per share, payable on 19 November 2004 to shareholders on the register on 29 October 2004, subject to approval of shareholders at the Annual General Meeting in November 2004.

CORPORATE

On 23 June 2004, British Sky Broadcasting Group plc (the "Company") announced the appointment of Jeremy Darroch as its new Chief Financial Officer. Mr Darroch, replacing Martin Stewart who leaves his post today, will take up his post on 16 August 2004.

On 15 June 2004, the Company announced that Nicholas Ferguson, Chief Executive Officer of SVG Capital, a publicly-quoted private equity group, had been appointed as an independent non-executive Director of the Company with effect from 15 June 2004, and that Andy Higginson, Finance and Strategy Director of Tesco plc, will join the Board as an independent non-executive Director with effect from 1 September 2004.

As a result of the recommendations made by the Corporate Governance Committee chaired by Lord Wilson of Dinton, the Board announced a series of changes to the composition of its committees on 15 June 2004. The Board also published a revised Memorandum on Corporate Governance and revised terms of reference for each of the Board's standing committees.

The Group anticipates issuing and serving a claim in the near future for a material amount against an information and technology solutions provider, which had provided services to the Group as part of the Group's investment in CRM software and infrastructure. The amount that will be recovered by the Group will not be finally determined until resolution of the claim.

Forward-looking statements

This document contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 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 television, advertising revenue growth, DTH subscriber growth and Multiroom and Sky+ penetration, DTH revenue, profitability and margin growth, cashflow generation, SAC and marketing expenditure, capital expenditure programmes and proposals for rewarding shareholders.

These statements (and all other forward-looking statements contained in this document) are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond the Group's control, are difficult to predict and could cause actual results to differ materially from those expressed or implied or forecast in the forward looking statements. These factors include, but are not limited to, the fact that the Group operates in a highly competitive environment, the effects of government regulation upon the Group's activities, its ability to continue to obtain exclusive rights to movies, sports events and other programming content, risks inherent in the implementation of large-scale capital expenditure projects, the Group's ability to continue to communicate and market its services effectively, and the risks associated with the Group's operation of digital television transmission in the UK and Ireland.

Information on some risks and uncertainties are described in the "Risk Factors" section of Sky's Annual Report on Form 20-F for the year ended 30 June 2003. Copies of the Annual Report on Form 20-F are available on request from British Sky Broadcasting Group plc, Grant Way, Isleworth TW7 5QD. 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

Subscribers to Sky Channels

	As at 30/06/03	As at 30/06/04
DTH digital homes1,2	6,845,000	7,355,000
Total TV homes in the UK and Ireland3,4	26,154,000	26,066,000

Total Sky digital homes as a percentage of total UK and Ireland TV homes	26%	28%
Cable - UK	3,266,000	3,321,000
Cable - Ireland	605,000	574,000
Total Sky pay homes	10,716,000	11,250,000
DTT - UK 5	1,510,000	3,084,000
Total Sky homes	12,226,000	14,334,000
Total Sky homes as a percentage of total UK and Ireland TV homes	47%	55%
Sky+ homes	105,000	397,000
Multiroom homes6	165,000	293,000

1: Includes DTH subscribers in Republic of Ireland (323,000 as at 30 June 2004).
2: DTH subscribers includes only primary subscriptions to Sky (no additional units are counted for Sky+ or Multiroom subscriptions).
3: Total UK homes estimated by BARB and taken from the beginning of the month following the period end (latest figures as at June 2004). Total Ireland homes estimated by Nielsen Media Research, conducted on an annual basis in July with results available in September 2004 (latest figures as at July 2003).
4: 2001 UK Census data was incorporated into the BARB data in January 2004, resulting in a revised figure for total UK homes.
5: DTT homes estimated by BARB and taken from the beginning of the following month (latest figures as at 1 July 2004). These figures may include Sky or Cable homes that already take multichannel TV.
6: Multiroom includes households subscribing to more than one set-top box. (No additional units are counted for the second or any subsequent multiroom subscriptions.)

Consolidated Profit and Loss Account for the year ended 30 June 2004

	Notes	Before goodwill and exceptional items GBPm (audited)	Goodwill and exceptional items GBPm (audited)	2004 Total GBPm (audited)	Before goodwill and exceptional items as restated* GBPm (audited)	Goodwi excep (a
Group and share of joint ventures' turnover		3,738	-	3,738	3,263	
Less: share of joint ventures' turnover		(82)	-	(82)	(77)	
Group turnover	1	3,656	-	3,656	3,186	
Operating expenses, net	2	(3,056)	(119)	(3,175)	(2,822)	
EBITDA	18	702	-	702	462	
Depreciation		(102)	-	(102)	(98)	
Amortisation		-	(119)	(119)	-	

Operating profit		600	(119)	481	364
Share of joint ventures' and associates' operating results	3	(5)	10	5	3
Profit on disposal of fixed asset investments	4	-	51	51	-
Amounts written back to (written off) fixed asset investments, net	4	-	24	24	-
Profit on ordinary activities before interest and taxation		595	(34)	561	367
Interest receivable and similar income	5	10	-	10	4
Interest payable and similar charges	5	(91)	-	(91)	(118)
Profit on ordinary activities before taxation		514	(34)	480	253
Tax (charge) credit on profit on ordinary activities	6	(158)	-	(158)	(59)
Profit on ordinary activities after taxation		356	(34)	322	194
Equity dividends	7			(116)	
Retained profit for the financial year	16			206	
Earnings per share - basic	8	18.3p	(1.7p)	16.6p	10.2p
Earnings per share - diluted	8	18.3p	(1.7p)	16.6p	10.0p

*The full year results for 2003 have been restated following the adoption of Urgent Issues Task Force abstract 38 "Accounting for ESOP trusts" ("UITF 38"). UITF 38 requires that the Company's shares held by the Group's Employee Share Ownership Plan ("ESOP"), which were previously held within fixed asset investments, be presented as a deduction from shareholders' funds. In addition, the charge to the profit and loss account in relation to awards under the Long-Term Incentive Plan ("LTIP"), the Key Contributor Plan ("KCP") and the Equity Bonus Plan ("EBP"), which was previously based on the cost of shares held by the ESOP, is now based on the difference between the market price on the date of grant and the exercise price. The adoption of UITF 38 has been treated as a prior year adjustment with comparative figures being restated accordingly.

There were no recognised gains or losses in either year other than those included within the profit and loss account, with the exception of a prior period adjustment in respect of adoption of UITF 38. The cumulative effect of this adjustment was a GBP12 million reduction to the brought forward profit and loss reserve at 1 July 2003.

Details of movements on reserves are shown in note 16.

The accompanying notes are an integral part of this consolidated profit and loss account.

All results relate to continuing operations.

Consolidated Profit and Loss Account for the three months ended 30 June 2004

	Before goodwill and exceptional items GBPm (unaudited)	Goodwill and exceptional items GBPm (unaudited)	Three months ended 30 June 2004 Total GBPm (unaudited)	Before goodwill and exceptional items as restated* GBPm (unaudited)	Goodwill excepti i (unaud
Group and share of joint ventures' turnover	979	-	979	875	
Less: share of joint ventures' turnover	(20)	-	(20)	(20)	
Group turnover	959	-	959	855	
Operating expenses, net	(797)	(32)	(829)	(740)	
EBITDA	184	-	184	141	
Depreciation	(22)	-	(22)	(26)	
Amortisation	-	(32)	(32)	-	
Operating profit	162	(32)	130	115	
Share of joint ventures' and associates' operating results	(1)	10	9	2	
Amounts written back to fixed asset investments	-	-	-	-	
Profit on ordinary activities before interest and taxation	161	(22)	139	117	
Interest receivable and similar income	5	-	5	1	
Interest payable and similar charges	(23)	-	(23)	(25)	
Profit on ordinary activities before taxation	143	(22)	121	93	
Tax (charge) credit on profit on ordinary activities	(42)	-	(42)	(38)	
Profit on ordinary activities after taxation	101	(22)	79	55	

Equity dividends			(63)	
Retained profit for the period			16	
Earnings per share - basic	5.2p	(1.1p)	4.1p	2.9p
Earnings per share - diluted	5.2p	(1.1p)	4.1p	2.8p

*The results for the three months ended 30 June 2003 have been restated following the adoption of UITF 38.

Consolidated Balance Sheet at 30 June 2004

	Notes		2004 GBPm (audited)		2003 as restated* GBPm (audited)
Fixed assets					
Intangible fixed assets	9		417		536
Tangible fixed assets	10		376		346
Investments:					
Investments in associates		1		-	
Investments in joint ventures : Share of gross assets		72		87	
: Share of gross liabilities		(45)		(59)	
: Transfer to creditors		5		2	
Total investments in joint ventures and associates	11		33		30
Other fixed asset investments	11		2		44
Total investments			35		74
			828		956
Current assets					
Stocks	12		375		370
Debtors: Amounts falling due within one year	13				
- deferred tax asset			49		31
- other			321		363
			370		394
Debtors: Amounts falling due after more than one year	13				
- deferred tax asset			102		159
- other			42		64

		144	223
Cash and liquid resources:			
- current asset investments		173	-
- cash at bank and in hand		474	47
		647	47
		1,536	1,034
Creditors: Amounts falling due within one year	14	(1,170)	(967)
Net current assets		366	67
Total assets less current liabilities		1,194	1,023
Creditors: Amounts falling due after more than one year			
- long-term borrowings	15	(1,076)	(1,152)
- accruals and deferred income	15	(28)	(20)
		(1,104)	(1,172)
Provisions for liabilities and charges		-	(3)
		90	(152)
Capital and reserves - equity			
Called-up share capital	16	971	969
Share premium	16	1,437	2,536
Shares to be issued	16	-	3
ESOP reserve	16	(30)	(35)
Merger reserve	16	222	299
Special reserve	16	14	-
Profit and loss account	16	(2,524)	(3,924)
Shareholders' funds (deficit)	16	90	(152)

*The balance sheet as at 30 June 2003 has been restated following the adoption of UITF 38.

The accompanying notes are an integral part of this consolidated balance sheet.

Consolidated Cash Flow Statement for the year ended 30 June 2004

	Notes	2004 GBPm (audited)	2003 GBPm (audited)

Net cash inflow from operating activities	17a	882	664
Dividends received from joint ventures		4	4
Returns on investments and servicing of finance			
Interest received and similar income		7	3
Interest paid and similar charges		(89)	(127)
Interest element of finance lease payments		-	(1)
Net cash outflow from returns on investments and servicing of finance		(82)	(125)
Taxation			
UK corporation tax paid		(55)	(18)
Consortium relief paid		(3)	-
Net cash outflow from taxation		(58)	(18)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(132)	(98)
Receipts from sales of fixed asset investments		116	1
Net cash outflow from capital expenditure and financial investment		(16)	(97)
Acquisitions and disposals			
Funding to joint ventures and associates		(5)	(15)
Repayments of funding from joint ventures and associates		6	5
Net cash inflow (outflow) from acquisitions and disposals		1	(10)
Equity dividends paid		(53)	-
Net cash inflow before management of liquid resources and financing		678	418
Management of liquid resources	17c	(511)	1
Financing			
Proceeds from issue of Ordinary Shares		20	5
Purchase of own shares for ESOP		(22)	-
Capital element of finance lease payments	17b	(1)	(2)
Net decrease in debt due after more than one year	17b	(75)	(425)
Net cash outflow from financing		(78)	(422)
Increase (decrease) in cash	17c	89	(3)
Decrease in net debt	17c	676	423

The accompanying notes are an integral part of this consolidated cash flow statement.

1. Turnover

	2004	2003

	GBPm (audited)	GBPm (audited)
Direct-to-home subscribers	2,660	2,341
Cable subscribers	215	202
Advertising	312	284
Interactive	307	218
Other	162	141
	3,656	3,186

2. Operating expenses, net

	Before goodwill and exceptional items GBPm (audited)	Goodwill and exceptional items GBPm (audited)	2004 Total GBPm (audited)	Before goodwill and exceptional items as restated GBPm (audited)	Goodwill and exceptional items GBPm (audited)
Programming (i)	1,711	-	1,711	1,604	-
Transmission and related functions (i)	146	-	146	143	-
Marketing	396	-	396	400	-
Subscriber management	371	-	371	324	-
Administration	257	119	376	243	116
Betting	175	-	175	108	-
	3,056	119	3,175	2,822	116

(i) The amounts shown are net of GBP11 million (2003: GBP12 million) receivable from the disposal of programming rights not acquired for use by the Group, and GBP28 million (2003: GBP26 million) in respect of the provision to third party broadcasters of spare transponder capacity.

3. Share of joint ventures' and associates' operating results

Goodwill

A credit of GBP11 million arose on the write back of negative goodwill which had arisen on the acquisition of an additional 16.7% stake in Attheraces Holdings Limited in April 2004, taking the Group's stake in Attheraces to 50%. The remaining net GBP1 million charge relates to amortisation of goodwill arising on the acquisition of certain joint ventures and associates.

4. Exceptional items

	Credit before taxation	Taxation (charge) credit	2004 Total	Credit (charge) taxation	Taxation (charge) credit

	GBPm (audited)	GBPm (audited)	GBPm (audited)	GBPm (audited)	GBPm (audited)	(
Release of provision against ITV Digital programming debtors (iii)	-	-	-	5	(2)	
Exceptional operating items	-	-	-	5	(2)	
Profit on disposal of fixed asset investments (i)	51	-	51	-	-	
Amounts written back to (written off) fixed asset investments, net (ii), (iv)	24	-	24	(15)	-	
Recognition of deferred tax asset (v)	-	-	-	-	123	
Total exceptional items	75	-	75	(10)	121	

2004

Other exceptional items

(i) Profit on disposal of fixed asset investments

On 1 March 2004, the Group sold its 20% shareholding in QVC (UK), operator of QVC - The Shopping Channel, for GBP49 million in cash, realising a profit on disposal of GBP49 million.

On 7 October 2003, the Group disposed of its listed investment in Manchester United plc, realising a profit on disposal of GBP2 million.

(ii) Amounts written back to (written off) fixed asset investments, net

The Group reduced its provision against its minority equity investments in football clubs by GBP33 million, due to the disposal of its investment in Manchester United plc in October 2003 for GBP62 million in cash. The Group also increased its provision against its remaining minority equity investments in football clubs by a further GBP9 million.

2003

Exceptional operating items

(iii) ITV Digital

The Group provided in full against all unprovided balances owed by ITV Digital, following the announcement by the joint administrators of ITV Digital on 30 April 2002 of the closure of pay television services on the platform and their intention to close the administration. During 2003, the Group received GBP5 million from ITV Digital's administrators and released GBP5 million of its exceptional operating provision accordingly.

Other exceptional items

(iv) Amounts written off fixed asset investments, net

At 31 December 2002, the Group made a further provision against its minority investments in football clubs, leading to a non-cash exceptional charge of GBP21 million. Subsequently, the Group reduced its provision against its investment in Chelsea Village plc at 30 June 2003 by GBP3 million, following the agreement to sell its minority investment in July 2003.

At 31 December 2002, the Group reduced its deferred revenue balance relating to minority investments in new media companies by GBP5 million, and reduced both its investment and its provision against the investment in these companies accordingly.

At 31 December 2002, the Group made a provision against its investment in Open TV shares, leading to a non-cash exceptional charge of GBP3 million, bringing the carrying value of the Group's investment in Open TV to nil. During February and March 2003, the Group disposed of its entire investment in Open TV shares, leading to a nil profit or loss on disposal.

(v) Recognition of deferred tax asset

At 30 June 2003, following a review of the forecast utilisation of tax losses within the Group, and as a consequence of a planned reorganisation of certain assets within the Group, there was sufficient evidence to support the recognition of a deferred tax asset arising on losses incurred in the Company. Accordingly, a deferred tax credit of GBP123 million was recognised as an exceptional item.

5. Interest

(a) Interest receivable and similar income

	2004 GBPm (audited)	2003 GBPm (audited)
Group		
Interest receivable on cash and liquid resources	8	2
Other interest receivable and similar income	1	1
	9	3
Joint ventures and associates		
Share of joint ventures' and associates' interest receivable	1	1
Total interest receivable and similar income	10	4

(b) Interest payable and similar charges

	2004 GBPm (audited)	2003 GBPm (audited)
Group		

On bank loans, overdrafts and other loans repayable within five years, not by instalments:		
- GBP200 million revolving credit facility ("RCF") (i)	2	2
- GBP750 million RCF (ii)	-	27
- GBP600 million RCF (ii)	6	4
US$650 million of 8.200% Guaranteed Notes, repayable in 2009	30	31
GBP100 million of 7.750% Guaranteed Notes, repayable in 2009	8	8
US$600 million of 6.875% Guaranteed Notes, repayable in 2009	30	30
US$300 million of 7.300% Guaranteed Notes, repayable in 2006	14	14
Finance lease interest	-	1
Other interest payable and similar charges	-	1
	90	118
Joint ventures and associates		
Share of joint ventures' and associates' interest payable	1	-
Total interest payable and similar charges	91	118

(i) In March 2003, the Group voluntarily cancelled GBP100 million of its GBP300 million RCF. The remaining GBP200 million RCF expired without being renewed on 29 June 2004.

(ii) In March 2003, the Group entered into a GBP600 million RCF. This facility was used to cancel the previous GBP750 million RCF, which was entered into in July 1999. The facility is available for general corporate purposes, but was undrawn at 30 June 2004. It is due to expire in March 2008.

6. Taxation

	Tax charge (credit) on profit before exceptional items GBPm (audited)	Exceptional tax charge (credit) GBPm (audited)	2004 Total GBPm (audited)	Tax charge (credit) on profit before exceptional items as restated GBPm (audited)	Exceptional tax charge (credit) GBPm (audited)
Current tax					
UK corporation tax	127	-	127	85	2
Adjustment in respect of prior years	(8)	-	(8)	-	-
Total current tax charge	119	-	119	85	2
Deferred tax					
Origination and reversal of timing differences	34	-	34	(26)	(123)

Increase (decrease) in estimate of recoverable deferred tax asset in respect of prior years	5	-	5	(2)	-
Total deferred tax charge (credit)	39	-	39	(28)	(123)
Share of joint ventures' and associates' tax charge	-	-	-	2	-
	158	-	158	59	(121)

All taxation relates to UK corporation tax.

7. Equity dividends

	2004 (audited) GBPm	2003 (audited) GBPm
Interim dividend paid of 2.75p (2003: nil) per Ordinary Share	53	-
Final dividend proposed of 3.25p (2003: nil) per Ordinary Share	63	-
	116	-

The ESOP has waived its rights to dividends.

8. Earnings per share

	Before goodwill and exceptional items (audited)	Goodwill (audited)	Exceptional items (audited)	2004 After goodwill and exceptional items (audited)	Before goodwill and exceptional items as restated (audited)	Goodwill (audited)	Ex
Profit on ordinary activities after taxation	GBP356m	(GBP109m)	GBP75m	GBP322m	GBP194m	(GBP121m)	
Earnings per share - basic	18.3p	(5.6p)	3.9p	16.6p	10.2p	(6.4p)	
Earnings per share -							

diluted	18.3p	(5.6p)	3.9p	16.6p	10.0p	(6.2p)

Earnings per share is shown calculated by reference to profits both before and after goodwill and exceptional items and related tax, since the Directors consider that this gives a useful additional indication of underlying performance.

9. Intangible fixed assets

The movement in the year was as follows:

	Goodwill GBPm (audited)
Net book value at 1 July 2003 (i)	536
Amortisation charge (ii)	(119)
Net book value at 30 June 2004	417

(i) Goodwill of GBP272 million, GBP543 million and GBP5 million, arising on the acquisitions of Sports Internet Group ("SIG"), British Interactive Broadcasting ("BiB") and WAPTV respectively, is being amortised over periods of seven years on a straight-line basis.

In accordance with FRS 11, impairment reviews were performed on the carrying values of BiB and SIG goodwill balances at the end of the first full financial year after acquisition, at 30 June 2002, which did not indicate impairment. Consistent with Group strategy, the business plans on which these reviews were based reflect significant projected increases in betting and other interactive revenues over the subsequent five years. The Group continues to monitor the performance of these businesses and is satisfied that no impairment of goodwill has occurred.

(ii) At 30 June 2004, the Group made a provision of GBP3 million, included within amortisation, against goodwill which arose on the acquisition of Planetfootball.com Limited (a company which provides website services to the sports industry), reducing the carrying value to nil. The provision was made as a result of an impairment review which showed that the expected future cash flows of the business would not support a carrying value for the goodwill.

10. Tangible fixed assets

The movement in the year was as follows:

	Freehold land and buildings GBPm (audited)	Short leasehold improvements GBPm (audited)	Equipment, fixtures and fittings GBPm (audited)	Assets in course of construction GBPm (audited)	Total GBPm (audited)
Net book value as at 1 July 2003	36	35	246	29	346

Additions	-	-	61	72	133
Disposals	-	-	(1)	-	(1)
Depreciation	(1)	(3)	(98)	-	(102)
Net book value as at 30 June 2004	35	32	208	101	376

11. Fixed asset investments

	2004 GBPm (audited)	2003 as restated GBPm (audited)
Investments in joint ventures and associates	33	30
Other investments	2	44
Total fixed asset investments	35	74

12. Stocks

	2004 GBPm (audited)	2003 GBPm (audited)
Television programme rights	322	337
Set-top boxes and related equipment	49	29
Raw materials and consumables	2	2
Other goods held for resale	2	2
	375	370

At least 87% (2003: 79%) of the existing television programme rights at 30 June 2004 will be amortised within one year.

13. Debtors

	2004 GBPm (audited)	2003 GBPm (audited)
Amounts falling due within one year		
Trade debtors	165	171
Amounts owed by joint ventures and associates	8	16
Amounts owed by other related parties	2	-
Other debtors	3	6
Prepaid programme rights	35	54
Prepaid transponder rentals	15	17
Advance corporation tax	-	40
Deferred tax asset	49	31
Other prepayments and accrued income	93	59
	370	394

Amounts falling due after more than one year		
Prepaid programme rights	6	3
Prepaid transponder rentals	30	49
Deferred tax asset	102	159
Other prepayments and accrued income	6	12
	144	223

14. Creditors: Amounts falling due within one year

	2004 GBPm (audited)	2003 GBPm (audited)
Trade creditors	390	323
Amounts due to joint ventures and associates	8	1
Amounts due to related parties	40	25
UK corporation tax	48	28
VAT	92	62
Social security and PAYE	8	-
Proposed dividend	63	-
Defined contribution pension scheme creditor	1	1
Other creditors	60	54
Accruals and deferred income	460	473
	1,170	967

Included within trade creditors are GBP250 million (2002: GBP226 million) of US dollar-denominated programme creditors. At least 80% (2003: 90%) of these were covered by forward rate currency contracts.

15. Creditors: Amounts falling due after more than one year

	2004 GBPm (audited)	2003 GBPm (audited)
Long-term borrowings		
GBP600 million RCF	-	75
US$650 million of 8.200% Guaranteed Notes, repayable in 2009	413	413
GBP100 million of 7.750% Guaranteed Notes, repayable in 2009	100	100
US$600 million of 6.875% Guaranteed Notes, repayable in 2009	367	367
US$300 million of 7.300% Guaranteed Notes, repayable in 2006	189	189
Obligations under finance leases	7	8
	1,076	1,152
Other		
Accruals and deferred income	28	20

	1,104	1,172

In March 2003, the Group entered into a GBP600 million RCF. This facility was used to cancel a GBP750 million RCF, which had been agreed in July 1999, and can be used for general corporate purposes. The GBP600 million facility has a maturity date of March 2008, and interest accrues at a margin of between 0.600% and 1.125% above the London Inter-Bank Offer Rate ("LIBOR"), dependent on the Group's Net debt:EBITDA leverage ratio (as defined in the loan agreement). Until June 2004, the margin was fixed at 1.125%, and shall not fall below 0.700% per annum above LIBOR prior to March 2006.

Also in March 2003, the Group voluntarily cancelled GBP100 million of the GBP300 million March 2001 RCF. The remaining GBP200 million RCF expired without being renewed on 29 June 2004.

16. Reconciliation of movement in shareholders' funds

Movement in shareholders' funds includes all movements in reserves.

	Share capital GBPm (audited)	Share premium GBPm (audited)	Shares to be issued GBPm (audited)	ESOP reserve GBPm (audited)	Merger reserve GBPm (audited)	Special reserve GBPm (audited)
At 1 July 2003 - as previously stated	969	2,536	3	-	299	-
Prior year adjustment	-	-	-	(35)	-	-
At 1 July 2003 as restated	969	2,536	3	(35)	299	-
Issue of share capital	2	21	(3)	-	-	-
ESOP shares utilised	-	-	-	27	-	-
ESOP shares purchased	-	-	-	(22)	-	-
Profit for the financial year	-	-	-	-	-	-
Dividends	-	-	-	-	-	-
Share premium reduction		(1,120)	-	-	-	14
Transfer from merger reserve	-	-	-	-	(77)	-
At 30 June 2004	971	1,437	-	(30)	222	14

Share premium reduction

On 10 December 2003, the High Court approved a reduction in the Company's share premium account of GBP1,120 million, as approved by the Company's shareholders at the Annual General Meeting held on 14 November 2003. The reduction had the effect of eliminating the Company's deficit on its profit and loss account as at 30 September 2003 of GBP1,106 million, and creating a non-distributable special reserve of GBP14 million, which represents the excess of the share premium reduction over the deficit.

Share option schemes

During the period the Company issued shares with a market value of GBP26 million (2003: GBP6 million) in respect of the exercise of options awarded under various share option schemes, with GBP20 million (2003: GBP5 million) received from employees.

At 30 June 2004, the Group's ESOP held 4,747,515 Ordinary Shares in the Company at an average value of GBP6.25 per share. The 4,339,497 shares utilised during the period relate to the exercise of LTIP, KCP and Executive Share Option Scheme awards. As a result of the adoption of UITF 38, the Group's ESOP shares, which were previously held within investments, are now presented as a deduction from shareholders' funds. In addition, the brought forward profit and loss reserve at 1 July 2003 was reduced by GBP12 million. The impact of adopting UITF 38 was accordingly to reduce net assets at 1 July 2003 by GBP47 million, and to reduce profit for the year to 30 June 2003 by GBP6 million.

17. Notes to consolidated cash flow statement

(a) Reconciliation of operating profit to operating cash flows

	Before goodwill and exceptional items GBPm (audited)	Goodwill and exceptional items GBPm (audited)	2004 Total GBPm (audited)	Before goodwill and exceptional items as restated GBPm (audited)	Goodwill an exceptiona item GBP (audite
Operating profit	600	(119)	481	364	(116
Depreciation	102	-	102	98	-
Amortisation of goodwill and other intangible fixed assets	-	119	119	-	121
Loss on disposal of fixed assets	1	-	1	-	-
(Increase) decrease in stock	(5)	-	(5)	44	-
Decrease in debtors	17	-	17	88	-
Increase in creditors	170	-	170	66	-
Decrease in provision	(3)	-	(3)	(1)	-
Net cash inflow from operating activities	882	-	882	659	5

(b) Analysis of changes in net debt

	At 1 July 2003 GBPm (audited)	Cash flow GBPm (audited)	At 30 June 2004 GBPm (audited)
Overnight deposits	33	40	73
Other cash	14	49	63
	47	89	136
Short-term deposits	-	338	338
Commercial paper	-	173	173
Cash and liquid resources	47	600	647
Debt due after more than one year	(1,144)	75	(1,069)
Capital element of finance leases	(8)	1	(7)
Total debt and capital element of finance leases	(1,152)	76	(1,076)
Total net debt	(1,105)	676	(429)

(c) Reconciliation of net cash flow to movement in net debt

	2004 GBPm (audited)	2003 GBPm (audited)
Increase (decrease) in cash	89	(3)
Increase (decrease) in short-term deposits	338	(1)
Increase in commercial paper	173	-
Cash outflow resulting from decrease in debt and lease financing	76	427
Decrease in net debt	676	423
Net debt at beginning of year	(1,105)	(1,528)
Net debt at end of year	(429)	(1,105)

17. Notes to consolidated cash flow statement (continued)

(d) Major non-cash transactions

2004

Share premium reduction

On 10 December 2003, the High Court approved a reduction in the Company's share premium account of GBP1,120 million, as approved by the Company's shareholders at the Annual General Meeting held on 14 November 2003. The reduction had the effect of eliminating the Company's deficit on its profit and loss account as at 30 September 2003 of GBP1,106 million, and creating a non-distributable special reserve of GBP14 million, which represents the excess of the share premium reduction over the deficit.

WAPTV

On 30 September 2003, the Company issued 338,755 (2003: 169,375) Ordinary Shares to satisfy the remaining contingent consideration in respect of the acquisition of the remaining 5% interest in WAPTV Limited which occurred in May 2001.

2003

Issue of shares - deferred consideration for BiB

On 11 November 2002, the Company issued 43.2 million shares with a fair value of GBP253 million to HSBC, Matsushita and BT in respect of deferred consideration for the acquisition of the remaining 67.5% of BiB in May and June 2001.

18. EBITDA

EBITDA (Earnings before interest, taxation, depreciation and amortisation) is calculated as operating profit before depreciation and amortisation or impairment of goodwill and intangible fixed assets.

19. Post balance sheet events

Potential legal claim

The Group anticipates issuing and serving a claim in the near future for a material amount against an information and technology solutions provider, which had provided services to the Group as part of the Group's investment in Customer Relationship Management ("CRM") software and infrastructure. The amount that will be recovered by the Group will not be finally determined until resolution of the claim.

Capital investment programme

The Group intends to invest an additional approximately GBP450 million on capital expenditure over the four years to 30 June 2008, in order to support its long-term growth. This is in addition to ongoing core maintenance capital expenditure which is expected to remain at about GBP100 million per annum over the same period. The additional expenditure will principally relate to enhancement of Sky's Osterley campus, a new call centre and training facility, and continuation of the current CRM and Advanced Technology Centre projects.

This financial information does not constitute statutory accounts for the purpose of section 240 of the Companies Act 1985. The financial information for the year ended 30 June 2004 has been extracted from the statutory accounts of British Sky Broadcasting Group plc for the year ended 30 June 2004, which have not yet been filed with the Registrar of Companies, but on which the auditors gave an unqualified report, and which did not contain a statement under section 237 (2) or (3) of the Companies Act 1985, on 3 August 2004. The preliminary announcement was approved by the Board of Directors on 3 August 2004.

The financial information for the three months ended 30 June 2004 and 30 June 2003 is unaudited.

The financial information for the year ended 30 June 2003 has been extracted from the statutory accounts of British Sky Broadcasting Group plc for the year ended 30 June 2003, with the exception of the restatement arising from the change in accounting policy described above. The statutory accounts on which the auditors gave an unqualified report and which did not contain a statement under section 237 (2) or (3) of the Companies Act 1985, have been filed with the registrar of Companies.

BRITISH SKY BROADCASTING GROUP PLC

Date: 4 August 2004

By: /s/ Dave Gormley
Dave Gormley
Company Secretary