Strong operational growth and record financial results

Andrew Griffith
Chief Financial Officer

Sky has delivered another year of strong operational growth and record financial results. Despite the tough economic environment, more customers are choosing more of our products than ever before with almost three million net product additions to reach a base of 28.4 million, up 12% on the prior year. We added 312,000 new households to reach 10.6 million customers, of which 32% now take our triple play of television, broadband and telephony.

Following good growth across all product categories, our customers are now taking an average of 2.7 products each, up from 2.5 a year ago and double the level of five years ago. ARPU increased by £10 on last year to £548, as the impact of this year's price freeze was more than offset by success in selling more products to new and existing customers. While the consumer environment remains challenging, customers are responding to the quality and value of our offering with churn for the 12 months of 10.2%, down on last year.

We delivered another good year in home communications as customers continue to choose Sky over other providers. We added 666,000 broadband customers, 667,000 telephony customers and 883,000 line rental products across the year. As a result, we closed the year with 3.4 million triple play customers – up 21% – and we are now the nation's favourite triple play provider.

We continued to extend our broadband network coverage, reaching 83% of the UK, bringing our high-quality, great value home communications products to more homes. To build further, this year we will launch Sky broadband and talk to the Republic of Ireland, making our full suite of services available to an additional 1.6 million homes for the first time.

We also continue to make good progress in unbundling. During the year, we migrated more than 900,000 customers to our own network and 69% of our on-net broadband customers are now fully unbundled, further improving the economics of our home communications business.

Our 'Summer of Sport in HD' campaign in the final quarter, combined with the continued success of our Sky Sports F1 channel contributed to 521,000 HD additions across the year to reach 41% penetration of the total customer base. Multiroom benefited from successful marketing campaigns with 152,000 net additions in the year to reach 2.4 million customers.

Our continued focus on customer service is delivering meaningful benefits to the business. In the fourth quarter, average calls per customer fell by more than 15% year on year despite continued strong product growth and service visits to customers' homes to fix a problem were the lowest in eight years. These improvements reflect continued focus on even better reliability of our products and services and resolving customer issues first time, through increased training and moving more conversations in-house. Our focus on e-enablement deflected over six million telephone calls online over the course of the year and has led to sky.com being consistently our most popular sales channel. In June, Ofcom published their sixth quarterly complaints report in which we once again performed strongly with the fewest complaints of any provider in both broadband and TV.

CHURN

10.2%

2011: **10.4%**
2010: **10.3%**

Extending leadership on screen

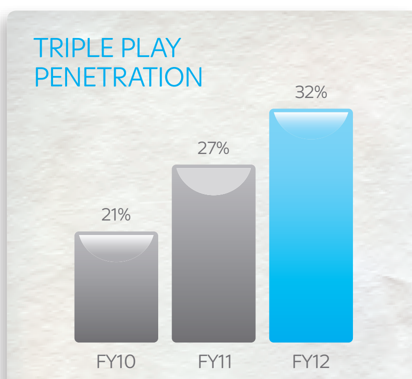
We continued to extend our leadership in content through building on our traditional areas of strength in sports, movies and news and at the same time driving a step change in our entertainment offering.

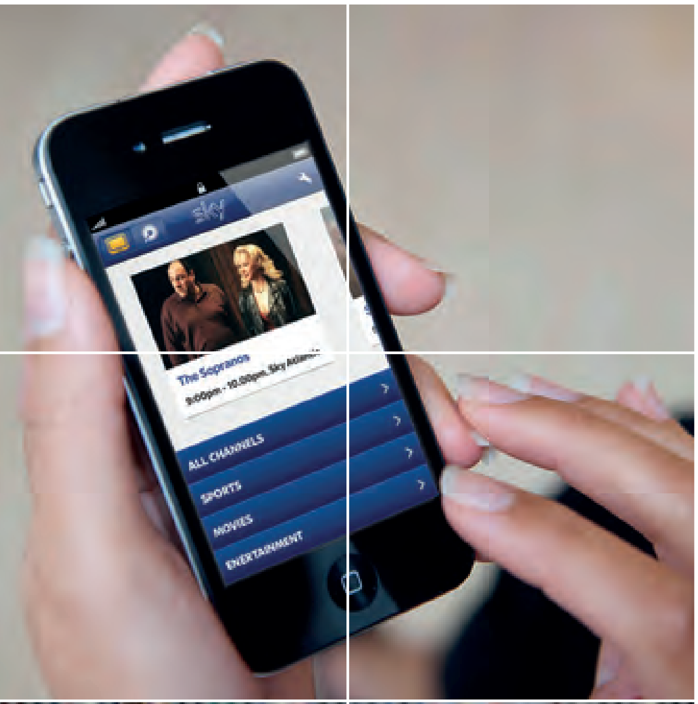
We had a strong year in sport, both on and off screen. A crucial Monday Night Football match between Manchester City and Manchester United on 30 April set a new record for live Premier League football and for Sky, peaking at 4.29 million viewers. In addition, many customers watched the game on the move or online via Sky Go, with the platform achieving a record 230,000 unique views for the game. Overall, the dramatic 2011/12 Premier League season generated average audiences that were up 12% on the prior year and on the final day of the season 4.6 million viewers watched the climax on one of the Sky Sports channels.

Our new channel Sky Sports F1 launched during the year and covered the unprecedented and exciting start to the season with seven different winners in the first seven races. Over 7.2 million viewers have watched the new channel since launch.

We renewed a broad range of sports rights during the year, ensuring the continued breadth and quality of our sports offering and giving us greater certainty than ever before over the largest item in our cost base. In the Premier League tender process for live rights for the three seasons beginning in August 2013, we successfully secured five packs including 116 live matches per year, ensuring that Sky remains the home of Premier League football. In addition, we secured rights for ICC cricket, the European Tour in golf, Spanish football from La Liga and next year's British & Irish Lions rugby tour to Australia. Together, these agreements help to ensure continuity of Sky Sports unparalleled sports coverage.

We've continued to develop our entertainment offering with great success and our decision to invest more in original British production has resonated well with customers during the year. Our in-house commission *Mount Pleasant* achieved one of the biggest comedy launches in multi-channel history, the returning series of *An Idiot Abroad* set a record audience for Sky 1 and our adaptation of *Treasure Island* delivered Sky 1's highest drama audience for four years. Sky Atlantic continues to hold very strong appeal to both existing and new customers with the channel's first UK drama, *Hit & Miss*, proving popular during the fourth quarter and the return series of *Game of Thrones* setting a new high for audiences on the channel.





ADJUSTED OPERATING MARGIN

18.0%

2011: **16.3%**
2010: **15.3%**

Leading product innovation

We continue to focus on improving our products to deliver the best customer experience and get more of our services into customers' homes.

Sky Go, our ground-breaking internet and mobile TV service, continues to resonate strongly with customers helping them to enjoy the convenience and flexibility of accessing a wide selection of our content on the move. Customers can access hundreds of hours of TV on 32 live channels, download a movie from the Sky Movies library, or rent a movie instantly on a laptop from the new Sky Store from a range of devices including PCs, Mac, smartphones and tablets. Usage continued to grow throughout the year, reaching 2.7 million unique users in the fourth quarter. We continue to extend the service by adding more channels and launching to new devices.

In addition to the convenient local storage of the set-top box, our video on demand service, Anytime+, is now available to more than five million homes. We made the service available to all HD boxes irrespective of their ISP and surpassed one million active users in the fourth quarter.

In home communications, we further enhanced our broadband service in April with the launch of The Cloud WiFi hotspots, giving seamless internet access free of charge to Sky Broadband Unlimited, Sky Fibre Unlimited and Sky Connect customers. We now have over 11,000 high-bandwidth, public access hotspots live across the UK, providing valued WiFi access for customers in convenient locations.

FINANCIAL SUMMARY

For the twelve months ended 30 June 2012 ('the year') we delivered record financial results. Revenue increased by 4.5% on a like-for-like basis[1], reflecting our continued growth in households and total products, and good contribution from other businesses. Top-line growth translated into strong profitability with adjusted EBITDA up 12% at £1,567 million and adjusted operating profit at its highest ever level of £1,223 million, at an expanded adjusted operating margin of 18.0%. Adjusted basic earnings per share increased by 22% to reach 50.8 pence and we grew the final dividend by 11% to reach 25.4 pence per share for the year.

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

1 Like-for-like revenue growth is calculated by removing one week of trading (estimated £100 million of revenue) from 2011 which was a 53-week year.

Revenue

Group revenue increased by £194 million to £6,791 million (2011: £6,597 million). Like-for-like revenue[1] increased by 4.5% as the growth in customers and products more than offset headwinds in advertising and Sky Business.

Retail subscription revenue increased to £5,593 million (2011: £5,471 million) as a result of strong product growth over the year and a larger customer base more than offsetting our decision to freeze subscription prices. Excluding the impact of the additional week of revenue in the comparative, subscription revenue[1] grew 4% on the prior year on a like-for-like basis.

Our wholesale business continues to perform strongly with revenue up by 9% to £351 million (2011: £323 million) due to increased take up for our channels across other platforms, the addition and success of our new Formula 1 channel and the addition of new carriage deals in the the first quarter of the fiscal year.

Advertising revenue was 4% lower year on year at £440 million (2011: £458 million). We continued to increase our market share, by 100 basis points across the year to 21.2%, with the majority of growth due to improved channel ratings for our third-party partners with whom we share revenue upside. Looking over a longer period, the benefits of increased scale have enabled us to grow revenue by £111 million since 2008/09 at an average annual growth rate of 10%.

Installation, hardware and service revenue of £98 million was lower year on year (2011: £112 million). In the context of continued growth in customers and product penetration, our work on product reliability and right-first-time installation rates led to the lowest level of service visits for eight years.

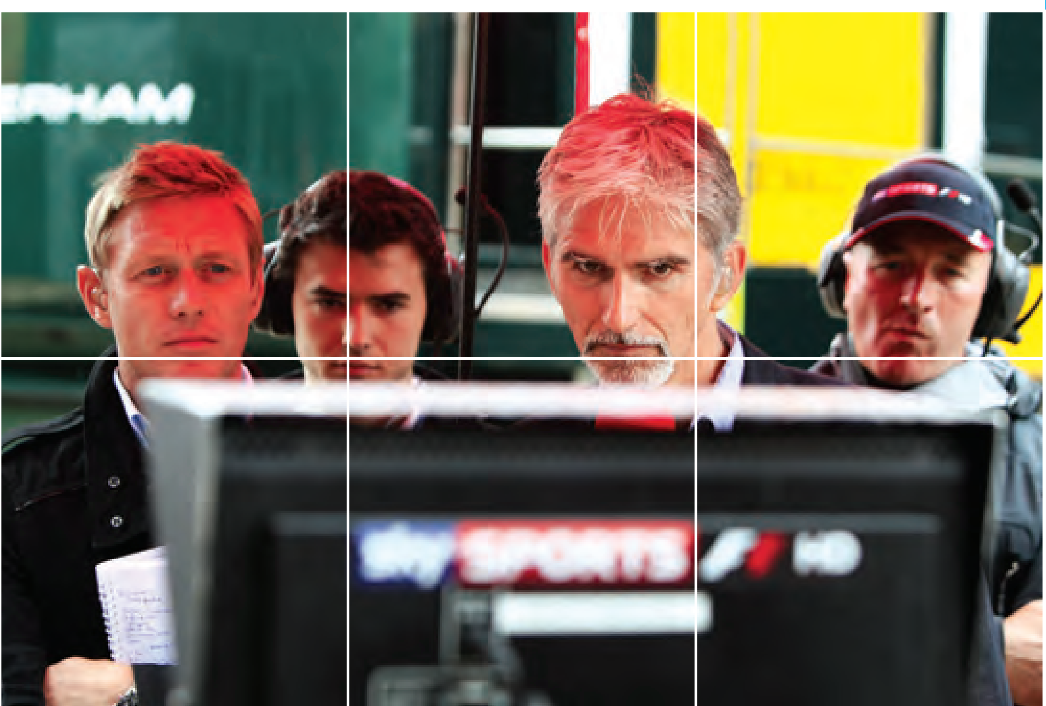
Other revenue increased by 33% to £309 million (2011: £233 million), including £52 million from the sale of set-top boxes to Sky Italia, for which the corresponding cost is recognised in subscriber management and supply chain. Excluding these sales, other revenue was up by 22% benefiting from continued strong performance in Sky Bet and the consolidation of The Cloud (acquired on 23rd February 2011).

Direct costs

Programming costs increased by 5% to £2,298 million (2011: £2,188 million) reflecting our continued investment in high-quality content. Of the £110 million increase year on year, entertainment costs accounted for £70 million as a result of a full 12 months of Sky Atlantic programming, alongside increased investment in original UK content. Third-party channel costs were £30 million higher as a result of adding seven additional HD channels in the year and 14% growth in HD customers year on year. Sports costs were £12 million higher year on year with the first time inclusion of the Formula 1 channel being partly offset by lower costs for cricket, golf and boxing due to the absence of biennial and other events such as the Ryder Cup and the Haye Klitschko fight that were included in the comparative year. Movies costs were flat year on year.

Direct network costs increased by 16% to £676 million (2011: £584 million), with 24% growth in home communications products partially offset by our continued progress in migrating customers to our fully unbundled network, thereby reducing the per customer cost. Gross margin of our home communications products improved as a result of revenue growth, additional scale and cost savings achieved as a greater proportion of customers are on our network.

ADJUSTED OPERATING PROFIT +14%	ADJUSTED BASIC EARNINGS PER SHARE (EPS) +22%
£1,223m	50.8p



Other operating costs

We have delivered another strong performance in costs, where efficiency programmes have contributed to a 6% reduction in adjusted other operating costs for the period to £2,594 million (2011: £2,752 million) and a 350 basis points reduction as a percentage of sales.

Marketing costs were 13% lower year on year at £1,064 million (2011: £1,220 million) with lower cost route-to-market sales, less above-the-line spend and fewer gross additions. Online is now consistently our single largest route-to-market, with our best offers available via sky.com. In addition to savings from the closure of the Sky customer magazine, above-the-line costs were £25 million lower year on year. Overall, the cost to acquire a new TV customer ('SAC') was £397 (2011: £376), with lower costs of direct marketing and set-top box costs offset by lower customer acquisition volumes.

Subscriber management and supply chain costs increased by £25 million year on year to £621 million (2011: £596 million). The largest contributor to the increase was the cost of sales of set-top boxes to Sky Italia (with corresponding revenue recorded within other revenue). Excluding the impact from these box sales, in both the current and comparative year, subscriber management and supply costs were down in absolute terms year on year; a good result in the context of a growing customer base and a 12% increase in the sale of total products year on year.

Transmission, technology and fixed network costs were flat at £395 million (2011: £395 million) as a result of favourable negotiations with suppliers and improved broadcasting efficiency due to the move to tapeless production within Sky Studios.

Administration costs fell by £27 million to £514 million (2011: £541 million) helped by a lower non-cash IFRS 2 'Share-based payment' charge and associated National Insurance costs than in the prior year.

Earnings

On an adjusted basis, profit before tax was £1,148 million (2011: £987 million), which included the Group's share of joint ventures and associates' profits of £32 million (2011: £34 million) and a net interest charge of £107 million (2011: £120 million).

Adjusted taxation for the period was £273 million (2011: £262 million). The adjusted effective tax rate was 24% (2011: 27%) reflecting the reduction in the rate of UK Corporation Tax, and one-off tax losses recognised in the third quarter largely inherited at the time of acquisition of Sky's core network, formerly part of Easynet, in 2006.

Adjusted profit for the period was £875 million (2011: £725 million), generating an adjusted basic earnings per share from continuing operations of 50.8 pence (2011: 41.6 pence).

Over the year the weighted average number of shares excluding those held by the Employee Share Ownership Plan for the settlement of employee share awards was 1,721 million (2011: 1,743 million). The number of shares at the end of the year was 1,674 million (2011: 1,753 million).

Exceptional items

Reported operating profit of £1,243 million included a net benefit of £20 million consisting of a £31 million gain relating to the break fee from News Corporation net of related costs and £11 million of restructuring costs which comprise severance payments in relation to a number of senior roles as part of a restructuring initiative to improve operational efficiency. Both exceptional items were recognised in administration costs.

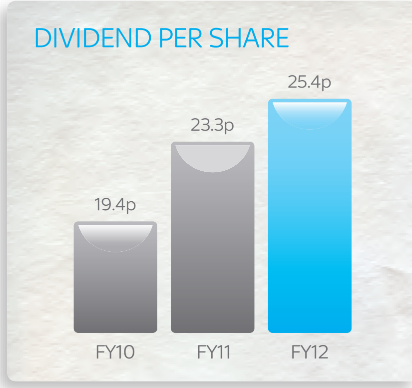
Reported profit after tax of £906 million also included an additional £11 million exceptional gain, which consisted of a £7 million profit on disposal of our stake in Chelsea Digital Media, an exceptional gain of £19 million relating to the re-measurement of derivative financial instruments not qualifying for hedge accounting (2011: £18 million gain), a £5 million charge due to writing-off the fees relating to the previous revolving credit facility, and a £10 million charge relating to the tax effect on exceptional items. See note 1 on page 51 of Summary financial statement.

Cash flow and financial position

Adjusted free cash flow increased by 14% to £992 million (2011: £869 million), excluding a one-off payment of £82 million in respect of the Premier League rights deposit for the season starting August 2013 (including the one-off payment, adjusted free cash flow was £910 million, see Summary financial statement for a reconciliation). The strong underlying cash flow growth reflects a 12% increase in adjusted EBITDA and a 9% improvement in working capital, offset by increased capital expenditure.

Capital expenditure increased by £34 million to £457 million (2011: £423 million), 6.7% of sales. The largest contributor to growth was the growing scale of our broadband network as we unbundled a further 388 exchanges to reach 83% coverage of the UK, expanded The Cloud WiFi network and launched a fibre product.

Net debt as at 30 June 2012 was £876 million (2011: £750 million). The value of shares repurchased to date under the £750 million share repurchase plan approved by shareholders on 29 November 2011 totalled £549 million, of which £236 million was completed in the fourth quarter.



The Group's liquidity and headroom are comfortable with no bond redemptions until October 2015 when £428 million falls due. As at the end of the year, cash and cash equivalents and short-term deposits were £1,174 million and the Company's £743 million revolving credit facility remained wholly undrawn.

Distributions to shareholders

The Directors propose an increase of 11% in the final dividend to 16.2 pence per share. Taking this into account the full-year dividend will be 25.4 pence per share, consistent with our policy of maintaining a payout ratio of 50% of adjusted earnings.

The proposed dividend continues our strong track record of delivering returns to shareholders and represents the eighth consecutive year-on-year increase in the dividend. Our full-year dividend has doubled since 2006 and has grown at a compound annual growth rate of 20% since it was restarted in 2004. Including the share buy-back, we will have returned almost £1 billion to shareholders in the last 12 months.

The ex-dividend date will be 24 October 2012 and, subject to shareholder approval at the Annual General Meeting to be held on 1 November 2012, the final dividend of 16.2 pence will be paid on 16 November 2012 to shareholders appearing on the register at the close of business on 26 October 2012.