

BRITISH SKY BROADCASTING GROUP PLC
Form 6-K
February 06, 2008
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FORM 6-K
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549
Special Report of Foreign Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of
the Securities Exchange Act of 1934

For the month of February 2008
February 6, 2008

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 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

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

This Report is incorporated by reference in the prospectus contained in Registration Statements on Form F-3 (SEC
File No. 333-08246) and Form F-3/S-3 (SEC File No. 333-106837) filed by the Registrant under the Securities Act of
1933.

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This constitutes the Interim Management Report on Form 6-K of British Sky Broadcasting Group plc (the "Company") prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" (IAS 34) as issued by the International Accounting Standards Board ("IASB") and as adopted by the European Union ("EU").

Forward looking statements

This document contains certain forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations and business, and our strategy, plans and objectives. These statements include, without limitation, those that express forecasts, expectations and projections, such as forecasts, expectations and projections with respect to the potential for growth of free-to-air and pay television, fixed line telephony, broadband and bandwidth requirements, advertising growth, Direct-to-Home ("DTH") subscriber growth, Multiroom, Sky+ and other services penetration, churn, DTH and other revenue, profitability and margin growth, cash flow generation, programming costs, subscriber management costs, administration costs and other costs, marketing expenditure, capital expenditure programmes and proposals for returning capital to 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 our control, are difficult to predict and could cause actual results to differ materially from those expressed or implied or forecast in the forward-looking statements. These factors include, but are not limited to, the fact that we operate in a highly competitive environment, the effects of laws and government regulation upon our activities, our reliance on technology, which is subject to risk, change and development, failure of key suppliers, our 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, our ability to continue to communicate and market our services effectively, and the risks associated with our operation of digital television transmission in the United Kingdom ("UK") and Republic of Ireland ("Ireland").

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Information on the significant risks and uncertainties associated with our business is described in [Review of the business](#) [Risk factors](#) in this document. All forward-looking statements in this document are based on information known to us on the date hereof. Except as required by law, we undertake no obligation publicly to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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Review of the business

Chief Executive Officer's statement

We have made good progress in the first half of the financial year, with strong levels of customer and product growth across the board. Our multi-product strategy and focus on quality customer growth is delivering real benefits to the business, both in terms of customer loyalty and average revenue per subscriber.

Nearly half of our customers now take an additional product from us and this, in combination with our decision to reduce the use of viewing package discounts in acquisition and retention, is driving improved customer loyalty and lower churn.

We remain the fastest growing provider of broadband and fixed line telephony in the UK with over 1.2 million broadband and 900,000 telephony customers. There is strong demand from consumers to consolidate their broadband and telephony services with one supplier, and the quality and value of our products positions us well to benefit from this trend.

Our content offering has never been better and we have achieved strong success over the last six months, with record audiences across Sky One, Sports and Movies. We give customers the flexibility and choice that allows them to watch entertainment as it should be, across a variety of different platforms.

Looking to the year ahead, a combination of our product range, which offers outstanding choice and value, and the quality of our existing customer base positions us well despite uncertain economic conditions.

Jeremy Darroch

Chief Executive Officer

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Set forth below is selected financial data for British Sky Broadcasting Group plc and its subsidiaries (the Group) under International Financial Reporting Standards (IFRS) as issued by the IASB and as adopted by the EU, as at and for each of the years in the three year period ended 30 June 2007. Also set forth below is selected financial data for the Group for the half year periods ended 31 December 2007 and 2006.

The information contained in the following tables should be read in conjunction with the Financial and operating review and the Group's historical condensed consolidated interim financial statements and related notes, as well as other information included elsewhere in this document.

The selected financial data set forth below as at and for each of the half year periods ended 31 December 2007 and 31 December 2006 are derived from condensed consolidated interim financial statements included in this Interim Management Report on Form 6-K, which have been prepared in accordance with IAS 34 as issued by the IASB and as adopted by the EU. The selected financial data set forth below for each of the years in the three year period ended 30 June 2007 are derived from our Annual Report on Form 20-F filed with the SEC. The selected other financial data set forth below for each of the years in the five year period ended 30 June 2007 are derived from our Annual Report on Form 20-F filed with the SEC.

Retail subscription	1,853	1,638	3,406	3,157	2,974
Wholesale subscription	88	109	208	224	219
Advertising	167	171	352	342	329
Sky Bet	24	20	47	37	32
Installation, hardware and service	148	119	212	131	128
Other	178	163	326	257	160
Revenue	2,458	2,220	4,551	4,148	3,842
Operating expense ^{(1), (2)}	(2,163)	(1,825)	(3,736)	(3,271)	(3,020)
Operating profit	295	395	815	877	822
Share of results of joint ventures and associates	8	6	12	12	14
Investment income	19	24	46	52	29
Finance costs	(82)	(69)	(149)	(143)	(87)
Profit on disposal of joint venture	67				9
Impairment of available-for-sale investment	(343)				
(Loss) profit before tax	(36)	356	724	798	787

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Taxation	(76)	(110)	(225)	(247)	(209)
(Loss) profit for the period	(112)	246		499		551		578	
(Loss) earnings per share from (loss) profit for the period (in pence)										
Basic	(6.4p)	14.0p		28.4p		30.2p		30.2p	
Diluted	(6.4p)	14.0p		28.2p		30.1p		30.2p	
Dividends per share										
Dividends declared per share (in pence) ⁽³⁾	7.1p		6.6p		13.3p		10.5p		7.25p	
Dividends declared per share (in cents) ⁽³⁾	14.5¢		12.7¢		25.9¢		18.4¢		13.7¢	

Non-current assets	2,618	2,342	2,557	1,504	1,093					
Current assets	1,629	1,787	1,363	2,283	1,363					
Current liabilities	(1,894)	(2,197)	(1,499)	(1,547)	(1,150)
Non-current liabilities	(2,411)	(2,077)	(2,374)	(2,119)	(1,119)
Net (liabilities) assets	(58)	(145)	47		121		187	
Capital stock ⁽⁴⁾	2,313	2,313	2,313	2,333	2,371					
Number of shares in issue (in millions)	1,753	1,753	1,753	1,791	1,868					

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continued

Selected other financial data

Distribution of Sky Channels

DTH homes	8,832	8,441	8,582	8,176	7,787	7,355	6,845
Cable homes ⁽⁵⁾	1,308	4,002	1,259	3,898	3,872	3,895	3,871
Total Sky pay homes	10,140	12,443	9,841	12,074	11,659	11,250	10,716
DTT homes ⁽⁶⁾	9,332	7,703	9,139	6,402	5,178	4,424	1,790
Broadband homes	1,199	193	716				
Sky Talk homes	915	223	526				

Notes

- (1) Included within operating expense for the half year ended 31 December 2006 and full year ended 30 June 2007 is a £65 million credit due to the Group, arising from certain contractual rights under one of the Group's channel distribution agreements. This item was disclosed as a contingent asset in the Group's Annual Report on Form 20-F for the year ended 30 June 2006.
- (2) Included within operating expense for the half year ended 31 December 2007 is £12 million (2007: half year: £6 million; full year £16 million) of expense relating to legal costs incurred on the Group's ongoing claim against EDS (an information and technology solutions provider), which provided services to the Group as part of the Group's investment in customer management systems software and infrastructure. For further details see Financial and operating review Contingent assets and liabilities .
- (3) Dividends are recognised in the period in which they are approved.
- (4) Capital stock includes called-up share capital and share premium.
- (5) The number of cable homes is as reported to us by the cable operators. The reported number of cable homes reflects the impact of Virgin Media ceasing to carry Sky's basic channels on its platform, following the expiry (and non-renewal) of an agreement at the end of February 2007.
- (6) The DTT homes number consists of Ofcom's estimate of the number of homes where DTT is the only platform. The number of DTT homes for all periods disclosed above is based on Ofcom's Digital Television Update published quarterly in arrears.

Factors which materially affect the comparability of the selected financial data

Available-for-sale investment

At 31 December 2007, we recorded an impairment loss of £343 million in the carrying value of our equity investment in ITV plc (ITV). For further details see note 5 to the Condensed consolidated interim financial statements .

Business combinations

During half year fiscal 2008, we completed the acquisition of Amstrad plc (Amstrad). The results of this acquisition were consolidated from the date on which control passed to the Group (5 September 2007).

During fiscal 2007, we completed the acquisition of 365 Media Group plc (365 Media). The results of this acquisition were consolidated from the date on which control passed to the Group (23 January 2007).

During fiscal 2006, we completed the acquisition of Easynet Group plc (Easynet). The results of this acquisition were consolidated from the date on which control passed to the Group (6 January 2006).

Disposal of joint venture

On 12 December 2007, the Group sold its 100% stake in B SkyB Nature Limited, the investment holding company for the Group s 50% interest in the NGC-UK Partnership. As consideration for the disposal, the Group received 21% interests in both NGC Network International LLC and NGC Network Latin America LLC (in effect, 21% of National Geographic Channel s television operations outside the US). The Group recognised a profit on disposal of £67 million.

Exchange rates

A significant portion of our liabilities and expenses associated with the cost of programming acquired from US film licensors is denominated in US dollars. For a discussion of the impact of exchange rate movements on our financial condition and results of operations see Quantitative and qualitative disclosures about market risk Foreign exchange risk .

Since any dividends are declared in pounds sterling, exchange rate fluctuations will affect the US dollar equivalent of cash dividends receivable by holders of ADSs.

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The following table sets forth, for the periods indicated, information concerning the noon buying rates provided by the Federal Reserve Bank of New York for pounds sterling expressed in US dollars per £1.00.

July 2007	2.0626	2.0114
August 2007	2.0426	1.9813
September 2007	2.0389	1.9920
October 2007	2.0777	2.0279
November 2007	2.1104	2.0478
December 2007	2.0658	1.9774

2003	1.6529	1.5915	1.6840	1.5192
2004	1.8126	1.7491	1.9045	1.5728
2005	1.7930	1.8596	1.9482	1.7733
2006	1.8491	1.7808	1.8911	1.7138
2007	2.0063	1.9463	2.0063	1.8203

2006	1.9586	1.9131	1.9794	1.8203
2007	1.9843	2.0351	2.1104	1.9774

(1) The average rate is calculated by using the average of the noon buying rates on the last day of each month during the relevant period.

On 4 February 2008, the noon buying rate was US\$1.9777 per £1.00.

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Risk factors

This section describes the significant risk factors affecting our business. These should be read in conjunction with our long-term operating targets, which are set out in [Financial review](#) [Financial and operating review](#) [Trends and other information](#) . These risks could have a material adverse effect on any or all of our business, financial condition, prospects, liquidity or results of operations. Additional risks and uncertainties of which we are not aware or which we currently believe are immaterial may also adversely affect our business, financial condition, prospects, liquidity or results of operations.

The Group's business is heavily regulated and changes in regulations, changes in interpretation of existing regulations or failure to obtain required regulatory approvals or licences could adversely affect the Group's ability to operate or compete effectively.

The Group is subject to regulation primarily under UK and European Union legislation and it is currently and may be in the future subject to proceedings, and/or investigation and enquiries from regulatory authorities, from time to time. The regimes which affect the Group's business include broadcasting, telecommunications, competition (anti-trust), gambling and taxation laws and regulations. Relevant authorities may introduce additional or new regulations applicable to the Group's business. The Group's business and business prospects could be adversely affected by the introduction of new laws, policies or regulations or changes in the interpretation or application of existing laws, policies and regulations. Changes in regulations relating to one or more of licensing requirements, access requirements, programming transmission and spectrum specifications, consumer protection, taxation, or other aspects of the Group's business, or that of any of the Group's competitors, could have a material adverse effect on the Group's business and/or the results of its operations.

The Group cannot be certain that it will succeed in obtaining all requisite approvals and licences in the future for its operations without the imposition of restrictions which may have an adverse consequence to the Group, or that compliance issues will not be raised in respect of the Group's operations, including those conducted prior to the date of this filing.

On 18 December 2007, Ofcom published a consultation document in relation to its ongoing investigation into the UK pay TV industry. The consultation document outlined Ofcom's preliminary understanding of the operation of the pay TV industry in the UK. Interested parties, including the Group, are invited to respond to the consultation document before 26 February 2008 by providing views on Ofcom's initial assessment of the operation of the pay TV industry, with a view to enabling it to examine whether there are competition issues that merit further action (which could include a market reference to the Competition Commission ([CC](#))). At this stage, the Group is unable to determine whether Ofcom's investigation will have a material effect on the Group.

On 17 November 2006, the Group acquired 696 million shares in ITV amounting to 17.9% of its issued share capital. The Group paid 135 pence per share, totalling £946 million. The investment in ITV has been subject to an in-depth review by the CC.

In December 2007 the CC completed its review and delivered the final report of its findings to the Secretary of State for Business, Enterprise and Regulatory Reform ([SoS](#)), for him to decide what action to take. The CC concluded that a relevant merger situation had been created, granting it jurisdiction, and that the

creation of that situation may be expected to result in substantial lessening of competition arising from the loss of rivalry in an all-TV market between ITV and the Group which may be expected to operate against the public interest. The CC recommended, by way of remedy, that the Group be required to divest part of its stake such that it holds less than 7.5% of ITV's issued share capital. The SoS announced on 29 January 2008 his decision to make an adverse public interest finding taking account of the CC's decision that the transaction results in a substantial lessening of competition in the UK market for all-TV. The SoS also decided to impose on the Group the remedies recommended by the CC to address the substantial lessening of competition identified in the CC's report: divestment of the Group's shares in ITV down to a level below 7.5% within a specified period (which has not been publicly disclosed), and behavioural undertakings from the Group requiring the Group not to dispose of the shares to an associated person, not to seek or accept representation to the Board of ITV and not to reacquire shares in ITV. The Group is currently considering its right to appeal the decisions of the SoS and/or the CC and is unable to determine the effect that these matters will have on the Group until such matters have been finally resolved.

The Group is not yet able to assess whether, or the extent to which, these matters will have a material effect on the Group.

The Group operates in a highly competitive environment that is subject to rapid change and it must continue to invest and adapt to remain competitive.

The Group faces competition from a broad range of companies engaged in communications and entertainment services, including cable operators, DSL providers, digital and analogue terrestrial television providers, telecommunications providers, internet service providers, home entertainment products companies, betting and gaming companies, companies developing new technologies, and other suppliers of news, information, sports and entertainment, as well as other providers of interactive services. The Group's competitors increasingly include communication and entertainment providers that are offering services beyond those with which they have traditionally been associated, either through engaging in new areas or by reason of the convergence of the means of delivery of communication and entertainment services. The Group's competitors include organisations which are publicly funded, in whole or in part, and which fulfil a public service broadcasting mandate. A change to such mandate could lead to an increase in the strength of competition from these organisations. Although the Group has continued to develop its services through technological innovation and by licensing, acquiring and producing a broad range of content, the Group cannot predict with certainty the changes that may occur in the future which may affect the competitiveness of its businesses. In particular, the means of delivering various of the Group's (and/or competing) services may be subject to rapid technological change. The Group's competitors' positions may be strengthened by an increase in the capacity of, or developments in, the means of delivery which they use to provide their services.

The Group's advertising revenue depends on certain external factors which include the overall value of advertising placed with broadcasters by third party advertisers as well as the amount of such advertising that is placed with the Group and the channels on whose behalf the Group sells advertising space. The Group's advertising revenue is also impacted by the audience viewing share of the Sky Channels and the other channels on whose behalf the Group sells advertising and, accordingly, such revenue is affected by the distribution of such channels. The Group cannot be certain that these factors will always be favourable to the Group and therefore that any related developments or changes will not have a negative impact on the Group's advertising revenue. Advertising revenue may also be dependent on the viewing behaviour of the television audience. For example, viewers with Sky+ (or any other PVR) or viewers of on-demand programming may choose not to view advertising including that on Sky Channels and other channels on whose behalf the Group sells advertising. The Group cannot be certain that its advertising revenue will not be impacted negatively by this behaviour or that advertising revenue for Sky Channels currently offered on other platforms will not be impacted negatively in the future by the offering of PVR devices similar to Sky+

and/or the development of on-demand services by other operators.

The Group's ability to compete successfully will depend on its ability to continue to acquire, commission and produce programme content that is attractive to its subscribers. The programme content and third party programme services the Group has licensed from others are subject to fixed term contracts which will expire or may terminate early. The Group cannot be certain that programme content or third party programme services (whether on a renewal or otherwise) will be available to it at all or on acceptable financial or other terms (including in relation to technical matters such as encryption, territorial limitation and copy protection). Similarly, the Group cannot be certain that such programme content or programme services will be attractive to its customers, even if so available.

The future demand and speed of take up of the Group's DTH service, and the Group's broadband and telephony services will depend upon the Group's ability to offer such services to its customers at competitive prices, pressures from competing services (which include both paid-for and free-to-air offerings), and its ability to create demand for its products and to attract and retain customers through a wide range of marketing activities. The future demand and speed of take up of the Group's services will also depend upon the Group's ability to package its content attractively. In addition, the Group operates in a geographic region which has experienced sustained economic growth for a number of years. The effect of a possible slowdown in the rate of economic growth and/ or a decline in consumer confidence on the Group's ability to continue to attract and retain subscribers is uncertain. Therefore, the Group cannot be certain that the current

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or future marketing and other activities it undertakes will succeed in generating sufficient demand to achieve its operating targets.

The Group's business is reliant on technology which is subject to the risk of failure, change and development.

The Group is dependent upon satellites which are subject to significant risks that may prevent or impair their commercial operations, including defects, destruction or damage, and incorrect orbital placement. If the Group, or other broadcasters who broadcast channels on the Group's DTH platform, were unable to obtain sufficient satellite transponder capacity in the future, or the Group's contracts with satellite providers were terminated, this would have a material adverse effect on the Group's business and results of operations. Similarly, loss of the transmissions from satellites that are already operational, or failure of the Group's transmission systems or up linking facilities, could have a material adverse effect on its business and operations.

The Group is dependent on complex technologies in other parts of its business, including its customer relationship management systems, broadcast and conditional access systems, advertising sales, supply chain management systems and its telecommunications network infrastructure, including WAN, LLU, CISCO core IP network, Marconi/Alcatel optical network and complex application servers.

In terms of the delivery of the Group's broadcast services, the Group is reliant on a third party telecommunications infrastructure to distribute the content between its head offices at Isleworth and its primary and secondary uplink sites at Chilworth and Fair Oak.

In addition, the Group's network and other operational systems are subject to several risks that are outside the Group's control, such as the risk of damage to software and hardware resulting from fire and flood, power loss, natural disasters, and general transmission failures caused by a number of additional factors.

Any failure of the Group's technologies, network or other operational systems or hardware or software that results in significant interruptions to the Group's operations could have a material adverse effect on its business.

There is a large existing population of digital satellite reception equipment used to receive the Group's services, including set-top boxes and ancillary equipment, in which the Group has made a significant investment and which is owned by its customers (other than the smart cards, the hard disk capacity in excess of personal storage capacity and the software in the set-top boxes, to which the Group retains title). Were a significant proportion of this equipment to suffer failure, or were the equipment to be rendered either redundant or obsolete by other technology or other requirements or by the mandatory imposition of incompatible technology, or should the Group need to or wish to upgrade significantly the existing population of set-top boxes and/or ancillary equipment with replacement equipment, this could have a material adverse effect on the Group's business.

The deployed set-top boxes contain finite memory resources that are used by the operating system and other software components such as the conditional access system, EPG, and interactive applications. The

Group estimates that around two million deployed set-top boxes have significant memory constraints and as such it has been necessary to close the EPG launch queue. To date, the Group has been able to carry out software downloads from time to time to reconfigure the memory utilisation in set-top boxes and to accommodate additional and increasingly complex services. In the event that the Group wishes to carry out such software downloads in order to accommodate additional and increasingly complex services and this course of action is no longer available to the Group, it may be limited in its ability to upgrade the services available via the set-top boxes currently installed on subscribers' premises.

Failure of key suppliers could affect the Group's ability to operate its business.

The Group relies on a consistent and effective supply chain to meet its business plan commitments and to continue to maintain its network and protect its services. A failure to meet the Group's requirements or delays in the development, manufacture or delivery of products from suppliers, the discontinuance of products or services, or a deterioration in support quality, could adversely affect the Group's ability to deliver its products and services. No assurance can be given that a broad economic failure or decline in quality

of equipment suppliers in the industry in which the Group operates will not occur. Any such occurrence could have a material adverse effect on the Group's business.

Sky Talk relies on telecommunications services from network operator THUS plc and failure on the part of THUS plc to meet the Group's requirements for whatever reason may affect the Group's ability to deliver its telephony services to Sky Talk subscribers.

The Group uses a series of products from Openreach (a BT group business) within its LLU operations. These are the colocation space and associated facilities to house the central office equipment (co-mingling), backhaul circuits to connect that equipment to the Group's network (BES) and finally individual copper lines that go between the central office equipment and the end user's house (primarily SMPF lines). Outside of the Group's LLU areas the Group uses BT Wholesale's IP stream bitstream product to provide broadband connectivity to end users. The Group purchases these products from Openreach under terms and conditions outlined in legally binding undertakings given by BT and accepted by Ofcom in lieu of a market investigation reference to the CC following Ofcom's Strategic Review of Telecommunications (the BT Undertakings). These stipulate that the Group buys these products on a fully equivalent basis when compared to other operators (including other parts of BT) who supply broadband, telephony and network products and services. Ofcom has set up an Equality of Access Board whose role is to monitor and ensure that all Equivalence of Input requirements agreed in the BT Undertakings are being enacted. Ofcom also monitors the implementation of the BT Undertakings. Failure by either Openreach or BT Wholesale in fact to provide its products to the Group on a fully equivalent basis could have a material adverse effect on the Group's business.

The Group is reliant on encryption and other technologies to restrict unauthorised access to its services.

Direct DTH access to the Group's services is restricted through a combination of physical and logical access controls, including smart cards which the Group provides to its individual DTH subscribers. Unauthorised viewing and use of content may be accomplished by counterfeiting the smart cards or otherwise overcoming their security features. A significant increase in the incidence of signal piracy could require the replacement of smart cards sooner than otherwise planned. Although the Group works with its technology suppliers to ensure that its encryption and other protection technology is as resilient to hacking as possible, there can be no assurance that it will not be compromised in the future. The Group also relies upon the encryption or equivalent technologies employed by the cable and other platform operators for the protection of access to the services which the Group makes available to them. Failure of encryption and

other protection technology could impact the Group's revenue from those operators and from its own customers.

The Group's network and other operational systems rely on the operation and efficiency of its computer systems. Although the Group's systems are protected by firewalls, there is a risk that its business could be disrupted by hackers or viruses gaining access to its systems. Any such disruption, and any resulting liability to the Group's customers, could have a material adverse effect on the Group's business.

The Group undertakes significant capital expenditure projects, including technology and property projects.

As is common with capital expenditure projects, there is a risk that the Group's capital expenditure projects may not be completed as envisaged, either within the proposed timescales or budgets, or that the anticipated business benefits of the projects may not be fully achieved.

The Group's investment in ITV could be subject to future events outside of the Group's control which could result in a loss in value of the Group's investment.

On 17 November 2006 the Group acquired 696 million shares in ITV at a price of 135 pence per share and on 31 December 2007 the Group recorded an impairment of £343 million in the carrying value of its investment in ITV attributable to the significant and prolonged decline in the equity share price of ITV. Following this impairment the Group is required to recognise the effect of further decline in the value of the equity share price of ITV in the income statement. If the Group were to dispose of all or part of its stake in ITV at a price lower than the equity market price on the date of disposal, the Group would be required to recognise a loss on disposal.

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Risk factors

continued

The Group, in common with other service providers that include third party services which the Group retails, relies on intellectual property and proprietary rights, including in respect of programming content, which may not be adequately protected under current laws or which may be subject to unauthorised use.

The Group's services largely comprise content in which it owns, or has licensed, the intellectual property rights, delivered through a variety of media, including broadcast programming, interactive television services, and the internet. The Group relies on trademark, copyright and other intellectual property laws to establish and protect its rights over this content. However, the Group cannot be certain that its rights will not be challenged, invalidated or circumvented or that it will successfully renew its rights. Third parties may be able to copy, infringe or otherwise profit from the Group's rights or content which it owns or licenses, without the Group's, or the rights holder's, authorisation. These unauthorised activities may be more easily facilitated by the internet. In addition, the lack of internet-specific legislation relating to trademark and copyright protection creates an additional challenge for the Group in protecting its rights relating to its online businesses and other digital technology rights.

The Group generates wholesale revenue from a limited number of customers.

The Group's wholesale customers, to whom it offers certain of the Sky Channels and from whom it derives its wholesale revenue, have comprised principally ntl and Telewest which merged in 2006 and have been rebranded as Virgin Media. Since 28 February 2007, Virgin Media has not carried the Sky Basic Channels but continues to carry all of the Sky Premium Channels on its digital networks (and offers Sky Sports 1 and Sky Sports 2 to its remaining analogue cable subscribers). Economic or market factors, regulatory intervention, or a change in strategy relating to the distribution of the Group's channels, may adversely influence the Group's wholesale revenue and other revenue which the Group receives from Virgin Media in connection with supply of the Sky Premium Channels which may negatively affect the Group's business.

The Group is subject to a number of medium and long-term obligations.

The Group is party to a number of medium and long-term agreements and other arrangements (including in respect of programming and transmission, for example, its transponder agreements) which impose financial and other obligations upon the Group. If the Group is unable to perform any of its obligations under these agreements and/or arrangements, it could have a material adverse effect on the Group's business.

Government regulation

Regulatory Update

European Commission Investigation – Football Association Premier League

The European Commission's investigation into the Football Association Premier League's (FAPL) joint selling of exclusive broadcast rights to football matches concluded with the European Commission's

adoption, in March 2006, of a decision making commitments offered by the FAPL legally enforceable. These commitments (a non-confidential version of which has been made available to third parties) are to remain in force until June 2013 and thus applied to the FAPL's auction of media rights for the 2007/08 to 2009/10 seasons and will apply to subsequent auctions of rights during this period. Among other things, the commitments provide for the FAPL to sell a number of packages of media rights, showcasing the League as a whole throughout each season. They provide for live TV rights to be sold in six balanced packages, with no one bidder being allowed to buy all six packages and packages being sold to the highest standalone bidder. The commitments also create more evenly balanced packages of rights and increase the availability of rights to broadcast via mobile phones.

The Group has been awarded four of the six packages of rights to show live coverage of FAPL football matches in the UK for the 2007/08 to 2009/10 seasons.

The decision is binding on the FAPL for the duration of the commitments, but does not bind national competition authorities or national courts. The Commission's decision does not address competition issues which may arise from contracts for rights in relation to

FAPL matches from the 2007/08 season onwards: any such issues could be assessed separately under the competition rules at either a European or national level.

Pay TV Market Investigation

On 18 December 2007, Ofcom published a consultation document in relation to its ongoing investigation into the UK pay TV industry. The consultation document outlined Ofcom's preliminary understanding of the operation of the pay TV industry in the UK. Interested parties, including the Group, are invited to respond to the consultation document before 26 February 2008 by providing views on Ofcom's initial assessment of the operation of the pay TV industry, with a view to enabling it to examine whether there are competition issues that merit further action. At this stage, the Group is unable to determine whether Ofcom's investigation will have a material effect on the Group.

Review of wholesale digital television broadcasting platforms

In October 2006, Ofcom published a document setting out the scope and timetable for a review of wholesale digital television broadcasting platforms. Ofcom indicated that it intends to undertake an analysis of relevant markets and to assess market power in such markets, to be used to inform regulation of conditional access, access control and EPG listing, and to review the competition conditions in the DTT multiplex licences. In its consultation document in relation to its pay TV market investigation (see above), Ofcom stated that the more strategic issues which might be considered in this platform review overlap with issues raised in the market investigation, and that the latter may be a better vehicle for consideration of such issues. Ofcom also stated that it has therefore given priority to the market investigation and expects to restart the platform review once there is greater clarity as to the likely range of outcomes of the market investigation. At this stage, the Group is unable to determine whether Ofcom's platform review will have a material effect on the Group.

The Group's investment in ITV

On 17 November 2006, the Group acquired 696 million shares in ITV amounting to 17.9% of its issued share capital. The Group paid 135 pence per share, totalling £946 million. The investment in ITV has been subject to an in-depth review by the Competition Commission (CC).

In December 2007 the CC completed its review and delivered the final report of its findings to the Secretary of State for Business, Enterprise and Regulatory Reform (SoS), for him to decide what action to take. The CC concluded that a relevant merger situation had been created, granting its jurisdiction, and that the creation of that situation may be expected to result in substantial lessening of competition arising from the loss of rivalry in an all-TV market between ITV and the Group which may be expected to operate against the public interest. The CC recommended, by way of remedy, that the Group be required to divest part of its stake such that it holds less than 7.5% of ITV 's issued share capital. The SoS announced on 29 January 2008 his decision to make an adverse public interest finding taking account of the CC 's decision that the transaction results in a substantial lessening of competition in the UK market for all-TV. The SoS also decided to impose on the Group the remedies recommended by the CC to address the substantial lessening of competition identified in the CC 's report: divestment of the Group 's shares in ITV down to a level below 7.5% within a specified period (which has not been publicly disclosed), and behavioural undertakings from the Group requiring the Group not to dispose of the shares to an associated person, not to seek or accept representation to the Board of ITV and not to reacquire shares in ITV. The Group is currently considering its right to appeal the decisions of the SoS and/or the CC and is unable to determine the effect that these matters will have on the Group until such matters have been finally resolved.

The Group is not yet able to assess whether, or the extent to which, these matters will have a material effect on the Group.

[Application to amend Digital Television Programme Services licence](#)

In February 2007, we announced that we are developing plans for the launch of a subscription television service on the DTT platform to be retailed under the Picnic brand. An application to amend our Digital Television Programme Services licence to enable us to launch these new pay TV channels on the DTT platform was submitted to Ofcom in April 2007. In October 2007 Ofcom published a consultation on the proposal to launch Picnic. Ofcom has not yet published the results of this consultation.

Table of contents

Financial review

Introduction

The following discussion and analysis is based on, and should be read in conjunction with, the Condensed consolidated interim financial statements. The interim financial statements have been prepared in accordance with IAS 34, as issued by the IASB and as adopted by the EU.

Overview and recent developments

During the half year ended 31 December 2007 (the current period), total revenue increased by 11% to £2,458 million, compared to the half year ended 31 December 2006 (the prior period). Operating profit for the current period was £295 million, resulting in an operating profit margin of 12%, compared to 18% in the prior period. Loss for the current period was £112 million, generating a basic loss per share of 6.4 pence, compared to earnings per share of 14.0 pence in the prior period.

At 31 December 2007, the total number of DTH subscribers in the UK and Ireland was 8,832,000, representing a net increase of 250,000 subscribers in the current period. At 31 December 2007, the total number of Sky+ subscribers was 3,131,000, representing 35% of total DTH subscribers. This represents growth in Sky+ subscribers of 32% in the current period. The number of Multiroom subscribers also continued to grow strongly, increasing by 188,000 in the current period to 1,531,000, representing 17% penetration of total DTH subscribers. The Group launched HD on 22 May 2006, and in the current period the total number of Sky HD subscribers grew by 130,000 to 422,000, representing 5% of total DTH subscribers.

DTH churn (annualised) for the current period was 10.6% (2007: half year: 11.8%). We define DTH churn as the number of DTH subscribers over a given period that terminate their subscription in its entirety, net of former subscribers who reinstate their subscription in that period (where such reinstatement is within a twelve month period of the termination of their original subscription). The decrease on the prior period reflected the benefit of additional product penetration and the decision made during the prior year not to renew viewing package discounts and improved price transparency.

Cable subscribers to the Group's channels decreased to 1,308,000 compared to 4,002,000 in the prior period. This reflects both a further reduction in the number of cable television subscribers to Sky's Premium Channels and the effect of Virgin Media, the cable retailer, ceasing to carry Sky's basic channels on its platform, following the expiry of an agreement at the end of February 2007.

On 17 July 2006, the Group launched a broadband service for its DTH subscribers. Sky Broadband continues to grow strongly, increasing by 483,000 customers in the current period to 1,199,000. By the end of the current period, we had unbundled 1,169 telephone exchanges (representing 71% network coverage). The number of Sky Talk customers reached 915,000, representing an increase of 389,000 customers in the current period.

On 17 November 2006, we acquired 696 million shares in ITV, representing 17.9% of the issued share capital of ITV, at a price of 135 pence per share. The total consideration paid amounted to £946 million. At 31 December 2007, the Group recorded an impairment loss of £343 million in the carrying value of its

available-for-sale investment in ITV. The fair value of the investment in ITV was determined with reference to its equity share price at the balance sheet date. In accordance with International Accounting Standard 39 Financial Instruments: Recognition and measurement (IAS 39) the effect of any further decline in the value of the equity share price of ITV will be recognised in the Group's income statement. This investment has been the subject of a review by the CC and the SoS (see Government regulation Regulatory Update for further details) and the Group is currently considering its right to appeal the decisions of the SoS and/or the CC.

On 5 September 2007, we announced that all the conditions of our offer for the entire issued share capital of Amstrad had been satisfied or waived, and accordingly the offer was declared unconditional in all respects. The total consideration paid amounted to approximately £127 million resulting in provisional goodwill of £97 million, and was principally funded from a loan note alternative and our existing cash balances. The acquisition of Amstrad is intended to provide the Group with an in-house product design and development capability, an ability to accelerate the development of new and more innovative products for customers, greater control over product design and technical specification and a reduction in supply chain procurement costs.

Major non-cash transactions

On 12 December 2007, the Group sold its 100% stake in BSkyB Nature Limited, the investment holding company for the Group's 50% interest in the NGC-UK Partnership. As consideration for the disposal, the Group received 21% interests in both NGC Network International LLC and NGC Network Latin America LLC (in effect, 21% of National Geographic Channel's television operations outside the US). This realised a profit on disposal of £67 million.

Corporate

The Board of Directors is proposing an interim dividend of 7.1 pence per ordinary share, representing growth of 8% over the prior period interim dividend. The ex-dividend date will be 26 March 2008 and the dividend will be paid on 18 April 2008 to shareholders of record on 28 March 2008.

On 6 December 2007, Rupert Murdoch resigned as Non-Executive Chairman of the Company and James Murdoch was appointed to the role. On the same day, James Murdoch relinquished his position of Chief Executive Officer and Jeremy Darroch was appointed in his place.

Operating results

Revenue

Our revenue is principally derived from retail subscription, wholesale subscription, advertising on our wholly-owned channels, the provision of interactive betting and gaming, and installation, hardware and servicing.

Our retail subscription revenue is a function of the number of DTH subscribers, the mix of services provided and the rates charged. Revenue from the provision of pay-per-view services, which include Sky Box Office, is included within retail subscription or wholesale subscription revenue, as appropriate. Retail subscription revenue also includes retail broadband subscription and Sky Talk revenue. Historically DTH subscriber acquisitions have tended to be higher in the first half of the Group's fiscal year, which as a result of the Group expensing the cost of acquiring subscribers as incurred, has tended to provide a modest weighting of profit towards the second half of the year.

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Our wholesale subscription revenue, which is revenue derived from the supply of Sky Channels to cable platforms, is a function of the number of subscribers on cable operators' platforms, the mix of services taken by those subscribers and the rates charged to those cable operators. We are currently a leading supplier of premium pay television programming to cable operators in the UK and Ireland for re-transmission to cable subscribers, although cable operators do not carry all Sky Channels.

Our advertising revenue is mainly a function of the number of commercial impacts, defined as individuals watching one thirty-second commercial on our wholly owned channels, together with the quality of impacts delivered and overall advertising market conditions. Advertising revenue also includes net commissions earned by us from the sale of advertising on those third-party channels for which we act as sales agent.

Sky Bet revenue represents our income in the period for betting and gaming activities, defined as amounts staked by customers less betting payouts.

Installation, hardware and service revenue includes income from set-top box sales and installation (including the sale of HD, Sky+ and Multiroom set-top boxes, and broadband), service calls and warranties.

Other revenue principally includes income from online advertising, telephony income from the use of interactive services (e.g. voting and games), text services, conditional access and access control income from customers on the Sky digital platform, technical platform service revenue, electronic programme guide fees, the provision of business broadband, network services and customer management service fees.

Operating expense

10.17*

Letter Agreement dated October 21, 2002 appointing Boston Safe Deposit and Trust Company as successor Trustee under each of the Directors Deferred Compensation and Benefits Trust Agreement, and the Deferred Compensation and Benefits Trust Agreement (incorporated by reference to Exhibit 10.16 of the Company's 2002 Form 10-K filed March 7, 2003, File No. 1-6841).

10.18

Sunoco, Inc. Employee Option Plan, as amended and restated as of November 1, 2000 (incorporated by reference to Exhibit 10.17 of the Company's 2002 Form 10-K filed March 7, 2003, File No. 1-6841).

10.19

\$400,000,000 Amended and Restated Credit Agreement dated as of July 21, 2003 (amending and restating the 364-Day Credit Agreement dated as of July 22, 2002, as amended) among Sunoco, Inc. and JPMorgan Chase Bank, Banc of America Securities LLC, The Bank of Tokyo Mitsubishi Trust Company, Bank of Nova Scotia and Barclays Bank PLC, and other Lenders thereto (incorporated by reference to Exhibit 10 of the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2003 filed on November 6, 2003, File No. 1-6841).

10.20

\$385,000,000 Three-Year Competitive Advance and Revolving Credit Facility Agreement dated as of July 22, 2002, among Sunoco, Inc. and JPMorgan Chase Bank, Banc of America Securities LLC, Bank of Nova Scotia and The Bank of Tokyo Mitsubishi Trust Company (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002 filed on August 7, 2002, File No. 1-6841).

10.21

Omnibus Agreement, dated as of February 8, 2002, among Sunoco, Inc., Sunoco, Inc. (R&M), Sunoco Pipe Line Company of Delaware, Atlantic Petroleum Corporation, Sunoco Texas Pipe Line Company, Sun Pipe Line Services (Out) LLC, Sunoco Logistics Partners L.P., Sunoco Logistics Partners Operations L.P., and Sunoco Partners LLC (incorporated by reference to Exhibit 10.5 of the 2001 Form 10-K filed by Sunoco

Logistics Partners L.P. on April 1, 2002, File No. 1-31219).

- 10.22 Pipelines and Terminals Storage and Throughput Agreement, dated as of February 8, 2002, among Sunoco, Inc. (R&M), Sunoco Logistics Partners L.P., Sunoco Logistics Partners Operations L.P., Sunoco Partners LLC, Sunoco Partners Marketing & Terminals L.P., Sunoco Pipeline L.P., Sunoco Logistics Partners GP LLC, and Sunoco Logistics Partners Operations GP LLC (incorporated by reference to Exhibit 10.6 of the 2001 Form 10-K filed by Sunoco Logistics Partners L.P. on April 1, 2002, File No. 1-31219).
- 10.23 Asset Sale Agreement dated December 22, 2003 by and among Coastal Eagle Point Oil Company, Coastal Pipeline Company, and El Paso Merchant Energy-Petroleum Company, as Sellers, and Sunoco, Inc. (R&M) as the Buyer (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K dated January 28, 2004, File No. 1-6841).
- 12 Statement re Sunoco, Inc. and Subsidiaries Computation of Ratio of Earnings to Fixed Charges for the Year Ended December 31, 2003.
- 13 Sunoco, Inc. 2003 Annual Report to Shareholders Financial Section.
- 14 Sunoco, Inc. Code of Business Conduct and Ethics (incorporated by reference to Exhibit 99.3 of the Company's 2002 Form 10-K filed March 7, 2003, File No. 1-6841).
- 21 Subsidiaries of Sunoco, Inc.
- 23 Consent of Ernst & Young LLP.
- 24.1 Power of Attorney executed by certain officers and directors of Sunoco, Inc.
- 24.2 Certified copy of the resolution authorizing certain officers to sign on behalf of Sunoco, Inc.
- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Periodic Financial Report Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Periodic Financial Report Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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*These exhibits constitute the Executive Compensation Plans and Arrangements of the Company.

(b) Reports on Form 8-K:

On October 23, 2003, the Company furnished under Item 7 Financial Statements, Pro Forma Financial Information and Exhibits and Item 12 Results of Operations and Financial Condition of Form 8-K, a copy of its earnings press release for the third quarter of 2003 that was issued on October 23, 2003. In this Form 8-K, the Company also furnished under Item 7 and Item 9 Regulation FD Disclosure additional information concerning the Company's third quarter earnings that was presented to investors in a teleconference call on October 23, 2003.

On January 14, 2004, the Company furnished under Item 7 Financial Statements, Pro Forma Financial Information and Exhibits and Item 9 Regulation FD Disclosure of Form 8-K a copy of its press release issued January 13, 2004, which included an announcement that it had closed its previously announced acquisition of the Eagle Point refinery in Westville, NJ from El Paso Corporation. The Company also furnished under these Items additional information concerning this acquisition that was presented to investors in a teleconference call on January 14, 2004. In this Form 8-K, the Company also furnished under Item 7 and Item 12 Results of Operations and Financial Condition a copy of its press release issued January 13, 2004, which included an announcement of certain projected financial results for its 2003 fourth quarter.

On January 22, 2004, the Company furnished under Item 7 Financial Statements, Pro Forma Financial Information and Exhibits and Item 12 Results of Operations and Financial Condition of Form 8-K, a copy of its earnings press release for the fourth quarter of 2003 that was issued on January 22, 2004. In this Form 8-K, the Company also furnished under Item 7 and Item 9 Regulation FD Disclosure additional information concerning the Company's fourth quarter earnings that was presented to investors in a teleconference call on January 22, 2004.

On January 28, 2004, the Company filed a Form 8-K to provide under Item 2 Acquisition or Disposition of Assets a brief description of the acquisition of the Eagle Point refinery, which was completed effective January 13, 2004. Since it was impracticable to provide the financial statements required by Item 7 Financial Statements, Pro Forma Financial Information and Exhibits at the time of this filing, the required financial statements will be filed by amendment as soon as practicable, but in any event not later than March 29, 2004.

On February 6, 2004, the Company furnished under Item 7 Financial Statements, Pro Forma Financial Information and Exhibits and Item 9 Regulation FD Disclosure of Form 8-K information that was presented to certain investors by Sunoco executives at the Credit Suisse First Boston 2004 Energy Summit held on February 6, 2004.

Note: Copies of each Exhibit to this Form 10-K are available upon request.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SUNOCO, INC.

By /s/ THOMAS W. HOFMANN
Thomas W. Hofmann
Senior Vice President and Chief Financial Officer

Date March 4, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by or on behalf of the following persons on behalf of the registrant and in the capacities indicated on March 4, 2004:

ROBERT J. DARNALL*

Robert J. Darnall, Director
JOHN G. DROSDICK*

John G. Drosdick, Chairman,

Chief Executive Officer,

President and Director

(Principal Executive Officer)

URSULA F. FAIRBAIRN*

Ursula F. Fairbairn, Director

THOMAS P. GERRITY*

Thomas P. Gerrity, Director

ROSEMARIE B. GRECO*

Rosemarie B. Greco, Director

THOMAS W. HOFMANN*

Thomas W. Hofmann, Senior Vice

President and Chief Financial Officer

(Principal Financial Officer)

ROBERT D. KENNEDY*

Robert D. Kennedy, Director

JOSEPH P. KROTT*

Joseph P. Krott, Comptroller

(Principal Accounting Officer)

RICHARD H. LENNY*

Richard H. Lenny, Director

NORMAN S. MATTHEWS*

Norman S. Matthews, Director

R. ANDERSON PEW*

R. Anderson Pew, Director

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JAMES G. KAISER*

James G. Kaiser, Director

G. JACKSON RATCLIFFE*

G. Jackson Ratcliffe, Director

JOHN W. ROWE*

John W. Rowe, Director

*By /s/ THOMAS W. HOFMANN

Thomas W. Hofmann

Individually and as

Attorney-in-Fact

SUNOCO, INC. AND SUBSIDIARIES

SCHEDULE II VALUATION ACCOUNTS

For the Years Ended December 31, 2003, 2002, and 2001

(Millions of Dollars)

	Balance at	Additions		Deductions	Balance at End
		Charged to	Charged		
	Beginning	Costs and	to		of Period
	of Period	Expenses	Other		
			Accounts		
For the year ended December 31, 2003:					
Deducted from asset in balance sheet					
allowance for doubtful accounts and notes receivable	\$ 11	\$ 5	\$	\$ 11	\$ 5
For the year ended December 31, 2002:					
Deducted from asset in balance sheet					
allowance for doubtful accounts and notes receivable	\$ 7	\$ 10	\$	\$ 6	\$ 11
For the year ended December 31, 2001:					
Deducted from asset in balance sheet					
allowance for doubtful accounts and notes receivable	\$ 8	\$ 7	\$	\$ 8	\$ 7