

4. BRITISH SKY BROADCASTING (BSKYB)

4.1 COMPANY INFORMATION

Exhibit 12 – BSKyB at a glance

Major shareholders	News Corporation Limited Vivendi	37.6%
	Universal	22.4%
CEO	Tony Ball	
Revenue 2002	£2.78 billion	
Shareholdings	Stream	35% (Italy)
	KirchPayTV	22% (Germany)
	British Interactive Broadcasting	32.5% (UK)

(Source: Paul Budde Communication; company information)

Majority owned by News Corporation, British Sky Broadcasting (BSkyB) is seen as the world's largest and most successful pay TV operator. BSKyB's fortunes in Europe vary according to the conditions prevailing in each country. During 2000, BSKyB remained a leading provider of sports, movies, entertainment and news, with channels received by over 9 million households in the UK and Eire via Direct-To-Home (DTH) and cable networks. The launch of the UK's first digital television service, Sky digital, on 1 October 1998, signalled the start of a new era in British broadcasting. It remains the fastest, most successful rollout of any digital TV service in Europe, attracting 4.08 million customers at the end of September 2000. In France, Germany, Italy and Spain, BSKyB faces competition from CanalPlus and Time Warner satellite services.

Until 1997, the company supplied its services without long-term contracts, making life difficult for cable operators anxious to plan long-term pricing policies. The merger of Mercury, Bell CableMedia, Nynex and Videotron to form Cable & Wireless Communications (CWC) served to increase the pressure on BSKyB.

In December 1999, BSKyB agreed to acquire a 22% interest in KirchPayTV, a supplier of subscription television services in Germany, subject to approvals. The consideration will consist of £320 million in cash plus BSKyB shares to the value of £622 million. It was the intention of BSKyB and KirchGruppe to carry out an IPO of KirchPayTV during 2003. However, KirchPayTV filed for insolvency in May 2002 due to illiquidity and over-indebtedness. BSKyB immediately exercised its put option to transfer its interest in KirchPayTV to Taurus Holding (formerly known as Kirch Holding).

The highlight in 2000 was the successful launch of Open, a joint venture with British Telecom. BSKyB announced in late 2000 that it had reached an agreement to increase its stake in Open, the largest television-based e-commerce platform in the UK, from 32.5% to 80.1%.

See separate report: *United Kingdom* at www.budde.com.au and *Vivendi Universal*, chapter 36, page 265.

Table 11 – Operating statistics – June 2001

Service	Subscribers	Annual change
Digital DTH satellite	5,310,000	+48%
Analogue DTH satellite	145,000	-85%
Cable	2,870,000	-8%
DTT	1,110,000	+49%

Service	Subscribers	Annual change
Total UK subscribers	9,420,000	+12%
Eire subscribers	621,000	+1%
DTH satellite churn rate	10.0%	unchanged

(Source: Paul Budde Communication, based on company data)

4.1.1 Year 2002 results

Revenues increased by 20% to £2.78 billion, mainly due to continued growth in DTH subscribers. This led to a 20% increase in operating profit to £192 million, despite the closure of ITV Digital.

After goodwill and exceptional items (principally relating to KirchPayTV), the net loss after tax was £1.38 billion. The Group wrote down the carrying value of its investment in KirchPayTV by £971 million to nil. Following KirchPayTV's filing for insolvency, the Group exercised its option to transfer its interest in KirchPayTV to Taurus Holding in May.

Sky generated positive free cash flow and the company's net debt was reduced to £1.53 billion.

Table 12 – Revenue for years ending June – 1995-2002

Year	Revenue (£ billion)
1995	0.776
1996	1.001
1997	1.249
1998	1.434
1999	1.545
2000	1.847
2001	2.306
2002	2.776

(Source: Paul Budde Communication, based on company data)

Table 13 – Revenue by segment – 2002

Segment	Proportion	Annual change
DTH	69%	+26%
Cable and DTT	10%	-7%
Advertising	9%	+7%
Interactive	7%	+100
Other	5%	

(Source: Paul Budde Communication, based on company data)

4.1.2 Brief history

1989

- Sky Television launches UK Direct-to-Home service via the Astra satellite with a four channel network. Subscriber Management Centre opens at Livingstone, Scotland.

1990

- Sky reaches one million UK homes. Sky Movies becomes the first UK encrypted channel. British Satellite Broadcasting (BSB) launches, then Sky and BSB merge to form British Satellite Broadcasting.

1991

- Nine channels streamline into a five channel network offering from BSB and Sky. Sky Movies, The Movie Channel, Sky Sports, Sky One and Sky News.

1992

- BSkyB secures exclusive rights to live FA Premier League football coverage.

1993

- Sky Multi-Channels launch with a package of 14 channels at basic subscription level.

1994

- Sky Sports 2 launches. A further four channels launch, including Sky Travel and Sky Soap. Sky announces £13 million investment in British films including a major output deal with British Screen. 17% of BSkyB is floated in a global offering on the UK and US Stock Exchanges.

1995

- A second Subscriber Management Centre opens at Dunfermline, Scotland. BSkyB enters the FTSE 100 index. A further six channels launch, including The Disney Channel and The History Channel. The number of subscribers exceeds five million.

1996

- BSkyB secures contract for exclusive live coverage of FA Premier League football until the end of 2000/2001 season. Sky pioneers domestic Pay-Per-View (PPV) with Bruno's defence of the World Heavyweight Championship. Satellite and cable achieve a 10.8% share of the total UK viewing audience, surpassing BBC2 and Channel 4 for the first time.

1997

- Satellite and cable channels achieve a new record audience in June, accounting for 51% of total viewers in multi-channel homes.

1998

- Sky digital launches offering 140 channels. More than 100,000 decoders are sold in the first 30 days.

1999

- BSkyB enters the list of world's top 250 companies. Satellite and cable television channels now account for more than 15% of total UK viewing - highest ever share. Sky digital is the fastest growing digital platform in Europe acquiring over 1.2 million subscribers in just 10 months. Free Set Top Box offer launches Interactive TV from Open launches. Sky Sports Active launches. Sky wins Judges Award in the Royal Television Society Technical Innovation Awards, for its digital platform.

2000

- Sky launches first national interactive advertising.

2001

- BSkyB switches off its analogue signal;
- Europe's first fully-integrated personal television recorder - Sky+ - launches;
- Sky buys out its partners' stakes in Open to form Sky Interactive, now owns 80%.

4.2 BROADCASTING SERVICES

BSkyB makes content available to consumers at all times - whether they are at home or on the move. It provides sports, entertainment and breaking news via mobile phones, personal digital assistants and portals including Sky.com and Skysports.com, which have combined monthly page impressions totalling over 75 million.

BSkyB is and always has been an innovator, transforming the UK television landscape in just 10 years. The company introduced satellite broadcasting to the UK in 1989 with 4 channels. In 1998 BSkyB launched the country's first digital television platform, broadcasting over 200 channels. Sky has pioneered a new age of television in Britain offering unimaginable choice to viewers across the nation.

For more information about the broadcasting sector in the UK, including Free-To-Air (FTA), pay TV and digital TV, see separate reports at www.budde.com.au:

- [United Kingdom – Broadcasting Market Overview and Major Players](#);
- [United Kingdom – Braodcasting Free-to-air, Digital and Pay TV](#).

4.2.1 TV programming

BSkyB operates satellite and cable TV channels including:

- Sky Movies;
- The Movie Channel;

- Sky Movies Gold;
- Sky Sports 1;
- Sky Sports 2;
- Sky Sports 3.

The company also operates non-subscription multi format channels:

- Sky 1;
- Sky 2;
- Sky News;
- Sky Travel;
- Sky Soap;
- the Computer Channel.

4.2.2 DTH services

The Group remains at the forefront of delivering innovative and attractive programming, both original and acquired.

4.2.2.1 Satellite DTH services

DTH satellite continued to be the primary form of distribution although growth was affected by the launch of Sky Digital. The unexpected success of digital services has seen an increase in the cost of analogue equipment together with fewer analogue marketing promotions. Analogue DTH services ceased at the end of 2000 following the successful launch of digital TV.

Together with Cable & Wireless Communications (CWC), the company started an analogue PPV service, Sky Box Office, of 100 channels at the end of 1996. This was converted to a digital service in 1998.

4.2.2.2 Digital DTH services

In early 1997, BSkyB, Carlton, Granada and BBC formed a joint venture, British Digital Broadcasting (BDB), to launch digital terrestrial TV (DTT) services, ONDigital, to begin in June 1998. BSkyB's involvement in the venture worried the largely US-owned cable industry in UK as well as the UK regulator Oftel, as it meant News Corp would have a slice of every television market in the UK. The licence was granted on the condition that BSkyB would not participate.

BSkyB launched its own digital satellite services SkyDigital, in October 1998, with 140 channels. Pace set-top boxes were used, while 7 consumer electronics manufacturers were developing TV sets with integrated Sky set-top technology. The company has agreements with many channel providers including the BBC, Channel 4, Channel 5, CNBC, Discovery, Flextech, Fox Kids, National Geographic, UKTV and Viacom for satellite and cable services.

In an effort to push digital TV in the UK, BSkyB offered free digital set-top-boxes to potential subscribers. The move was very successful with an immediate increase in subscriber numbers. The move improved Sky's prospects of maintaining its share of pay TV but raised the costs of staying in the game. ONDigital and digital cable firms are under pressure to follow but BSkyB's lead.

SkyDigital also converted its previously analogue PPV service into a digital service with 24 new Sky Box Office screens from September 1998, with up to 25 films a night and top titles starting every 15 minutes.

BSkyB services operates from Astra 1A satellite, while Sky Digital operates from Astra 2A and 2B satellites.

4.2.3 Interactive TV – Open

BIB launched its interactive TV service ‘Open Interactive’ on the SkyDigital platform in October 1999. Open allows Sky Digital subscribers to purchase goods, play games and send e-mail using their remote control handsets and is projected to become the UK’s biggest vehicle for electronic-commerce. The service is free and operates via the Sky digital set-top-box and the standard telephone line.

Two thirds of digital satellite subscribers used Open.

4.2.3.1 Data services

In 1995, the company started its first interactive service called Intertext, an extension of the (one way) teletext technology seen on most of Sky’s TV channels. The first information providers included banks, home shopping companies and travel agents.

Internet services began in 1996, with access through satellite TV by the end of 1997. The Internet service was dubbed Sky.com. By October 1998, the company announced a major review of its Website to make it more competitive and take advantage of multimedia innovations, calling for public input to redesign it.

In early 1999, the company allied itself with America Online (AOL) for an Internet marketing initiative. BSkyB is supplying content, including the Sky Sports Website to AOL, which in turn helps market SkyDigital to subscribers.

In June 1999, free Internet service provider, Skynow, was launched and SkyDigital subscribers receive 40% off their standard rate calls using their existing BT phone line. The service is available to everyone, not just BSkyB satellite television subscribers, although these are 44% more likely to use the Internet at home than the population as a whole.

SkyText, a Sky digital text service, was launched in December 2000, and features on-screen interactive services, including betting. The enhanced Sky Text service is available subscription-free in digital satellite homes and requires no additional equipment.

Initially accessible on Sky digital channels, Sky Text delivers more than 1,200 pages of news, sport, entertainment and information at the touch of a button.

The interactive capabilities of the digital satellite set-top box allow viewers to go online within Sky Text to bet on sporting events or to drill down for in-depth news, sport and information from Sky.com. These services are fully integrated within the broadcast environment, enabling viewers to continue to watch television while they are placing a bet on horse racing or football or reading a news report.

BSkyB launched a £250 million Internet push in March 2000, announcing deals with Kingston Communications for offering Sky Internet services over its Asymmetric Digital Subscriber Line (ADSL) network.

In May 2001, the Group acquired a 5% minority interest in WAP TV, increasing its interest to 100%.

4.2.4 Cable

Through the late 1990s the deployment of cable infrastructure for Sky services slowed. Since late 1999, the dominant means of receiving the broadcasting services have been via digital satellite.

4.2.5 Telephony services

Launched in October 1997, SkyDial is a telephone service available to Sky’s direct-to-home television subscribers from their existing BT line. There is no need for additional lines or to change phone

numbers as SkyDial customers continue to rent their lines from BT. A four-digit prefix dialled before each phone call routes the call into the SkyDial system, automatically activating savings, with an itemised quarterly bill.

SkyDial is provided to Sky's customers by Broadsystem Ventures, a major provider of automated response telephony services, through its sophisticated network of switches in the UK, linked by fibre optic cable to an international network.

At its launch, SkyDial offered discounts of 5% on local calls and 20% on long-distance and international calls. From February 1998, SkyDial offered 20% reductions over BT standard rates on the cost of all calls, national, local and international, for Sky subscribers.

The service is now bundled with TV and Internet services and offered as a digital TV package.

Sky.com offers a range of mobile services however, including Wireless Access Protocol (WAP), Short Message Service (SMS) and Personal Digital Assistants (PDA) services. Much of the broadcasting and data content available via satellite and cable can be accessed, sometimes in modified form, via mobile phones and PDA devices.

For more information about the range of telephony services in the United Kingdom, see separate report: *United Kingdom – Voice, Data and Internet Services* at www.budde.com.au.

4.3 OTHER DEVELOPMENTS

4.3.1 Year 2002

March

- BSkyB, Flextech Television and UKTV agreed a new five-year carriage deal whereby Flextech's wholly owned channels and the UKTV services, jointly owned by Flextech and the BBC, will continue to be available to Sky digital's viewers until the end of 2006.

April

- lastminute.com, an online provider of travel and leisure solutions, formed a partnership with BSkyB to sell its key products through Sky Active;
- Following the insolvency of ITV Digital, BSkyB lost the business of supplying it with channels.

May

- KirchPayTV, in which BSkyB holds a 22% interest, filed for insolvency and BSkyB immediately exercised its put option to return its interest to Taurus Holding (formerly known as Kirch Holding).

4.4 CONTACT DETAILS

British Sky Broadcasting
6 Centaurs Business Park, Grant Way
ISLEWORTH
UNITED KINGDOM

Tel: +44 1 71 705 3000
Fax: +44 1 71 705 3453
Website www.newscorp.com
www.sky.co.uk