British Sky Broadcasting Group plc

ANNUAL REPORT 2010

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This constitutes the Annual Report of British Sky Broadcasting Group plc (the "Company") in accordance with International Financial Reporting Standards ("IFRS") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS and is dated 28 July 2010. This Annual Report makes references to various Company websites. The information on our websites shall not be deemed to be part of, or incorporated by reference into, this Annual Report.

FORWARD LOOKING STATEMENTS

This document contains certain forward-looking statements 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") customer growth, Multiroom, Sky+, Sky+HD and other services' penetration, churn, DTH and other revenue, profitability and margin growth, cash flow generation, programming costs, subscriber management and supply chain costs, administration costs and other costs, marketing expenditure, capital expenditure programmes and proposals for returning capital to shareholders.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, 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").

Information on the significant risks and uncertainties associated with our business is described in "Directors' report – Review of the business – Principal risks and uncertainties" in this document. No part of these results constitutes, or shall be taken to constitute, an invitation or inducement to invest in the Company or any other entity and must not be relied upon in any way in connection with any investment decision. 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.

CHAIRMAN'S STATEMENT

Over the course of the last year, the environment for consumer-facing businesses has again been characterised by an uncertain economic outlook and pressures on household budgets. Against this challenging backdrop, Sky has continued to do well with good progress operationally and a strong financial performance.

Our business, based largely on direct consumer subscription revenues, has proven to be more resilient to difficult economic conditions than those media businesses with greater exposure to cyclical advertising revenue. That strength, combined with the steps taken by the management team in pursuit of disciplined growth and operational efficiency, has put the Company on course to emerge from the downturn in a better position than before.

Customers are choosing Sky in greater numbers – and for a greater variety of products – than ever. At the close of the year, the Company was nearing its target of 10 million customers; a target that many observers long believed was not achievable. Furthermore, our relationships with those households are becoming increasingly valuable as more customers choose to take additional products such as high definition, broadband and telephony.

This strong response from customers, even in more difficult economic times, is a powerful endorsement of Sky's approach to business: taking risks, investing, innovating and competing vigorously and fairly. Our belief is that companies that embrace change and open up more choice in this way should have the opportunity to enjoy the fair rewards of success. We will continue to resist regulatory intervention that risks undermining the incentives for investment and the positive benefits enjoyed by consumers today.

Our approach also includes a strong sense of responsibility in the way we do business. Making a broad contribution to the society in which we operate is a key element of durable commercial success and we continue to expand our work in three key areas: helping to create a healthy environment; opening up the arts to more people; and encouraging participation in sport.

In June 2010, News Corporation – where I am an Executive Director - approached the Board of Sky with a proposal to acquire the shares in the Company that it does not already own. Further details of this matter are included in the Chief Executive Officer's statement. For my part, I would like to take this opportunity to reiterate that News Corporation remains a committed shareholder in Sky and is fully supportive of its talented management team and exceptional people.

In reflection of the Company's continued strong performance, the Board proposes a 10% increase in the full year dividend to 19.40 pence per share.

This performance is only possible as a result of the commitment and effectiveness of all our colleagues at Sky. On behalf of the Board, I would like to express warm thanks to them for their contribution to the Company over the last year, just as we thank all shareholders for their continued support.

James Murdoch
Chairman
28 July 2010

Chief Executive Officer's statement

For several years, Sky has been pursuing a clear and consistent strategy with the goal of building a larger and more profitable business. This is designed to take advantage of two fundamental trends in today's marketplace, which come together to create a significant opportunity for our business. We see that customers are increasingly willing to pay for a better television experience and they have a growing appetite to take multiple products from a single, trusted provider. In both cases, Sky is well positioned to benefit.

Aligning the business with those trends, our strategy is focused on two legs of growth. First, we continue to grow our overall customer base and, second, we are increasingly focused on selling more products to existing customers. Our approach is based on the combination of disciplined investment in areas where customers see value and a strong focus on operational efficiency, with the aim of striking the right balance between growth and returns.

Our performance over the last 12 months – and over the last few years - gives us confidence that our strategy is working. More customers are choosing Sky than ever before and they are choosing to take more from us. Not only have we grown our customer base by almost 1.3 million over the last three years, we have also sold a total of 8.9 million additional subscription products over the same period. As customers have rewarded us with more of their business, it has driven increased average revenue per customer and helped to maintain our strong levels of loyalty and retention.

Despite continuing pressure on household budgets and an uncertain economic outlook, our rate of growth has remained strong during 2010. This is testament to the importance that people place on their home entertainment experience; an importance that is now widely recognised. But it also reflects the steps that we have taken over a number of years to make continuous improvements to the value, quality and range of our offering. There are a number of strands to the way in which we are creating more reasons for new customers to consider Sky and adding more value for existing customers.

First, we never forget that the main reason why customers join Sky is for a better choice of TV viewing. That is why we have continued to invest in stand-out content, widening the gap between what customers get from free-to-air TV and the enhanced choice they can enjoy with Sky. This year, we have extended our entertainment offering on Sky1 with more original drama such as Chris Ryan's 'Strike Back' and more family entertainment such as 'Got to Dance' with Davina McCall. Sky Arts has gone from strength to strength, reaching almost two million viewers a month with a highly distinctive schedule including the return of live theatre to UK television. Sky Sports has had another successful year, with England's Ashes victory and more live UEFA Champions League, while Sky Movies brought viewers the ground-breaking World War Two drama, 'The Pacific'.

Second, we look continually for new ways to bring content to life through innovation. A powerful example of how customers respond to a better viewing experience is provided by the success of high definition (HD), which is now in 30% of our customers' homes with penetration more than doubling for the second successive year. During 2010, we've made HD more accessible to viewers by lowering the upfront cost of the Sky+HD box, while further expanding the range of HD channels, including the launch of Europe's first HD news channel, Sky News HD. The growth of HD is an attractive area for us to invest, opening up a high-margin revenue stream and differentiating our product from the competition. In October 2010, we'll move forward again with the launch of 3D television to residential customers via the existing Sky+HD box, following a successful launch in commercial premises last year. We'll also continue to extend distribution of our Sky Player and Mobile TV services, opening up new ways for customers to access our content through devices like the iPad and Xbox.

9.86m
Total Sky TV customers

£5,912m
Adjusted Group revenue

31.1p
Adjusted basic earnings per share

A third area of focus is the opportunity created by our entry into the arena of home communications. Today, one in five customers take all three of TV, broadband and home telephony from us and there is a significant opportunity for further growth. Our proposition is based on value, reliability and simplicity, offering our customers the opportunity to enjoy a high quality service and save money when they switch from their existing phone or broadband provider to Sky.

Alongside sensible investment in customer-facing areas of the business, we have focused equally hard on operational efficiency. After scaling the business to manage a step-change in demand, we have made good progress in making our cost base more efficient, in particular by simplifying processes in our supply chain and back office functions.

This approach is translating into strong financial results, with double-digit growth across the board this financial year. Group revenue increased 11% to £5,912 million on an adjusted basis. Adjusted operating profit increased by 10% to £855 million, demonstrating accelerated returns as we move through our investments in high definition and home communications. We delivered record adjusted basic EPS of 31.1p, up 20% year on year, with reported EPS increasing to 50.4p reflecting both the EDS litigation settlement and the partial disposal of our investment in ITV. Adjusted free cash flow grew by 23% to £626 million.

It is notable that this strong financial performance has been achieved during a year of continued investment. This indicates that our approach – of combining disciplined investment with a continuous focus on operational efficiency – is delivering the right balance between growth and returns. We intend to maintain this balanced approach going forward, as we believe it represents the best way to create value for shareholders.

While 2010 has been a good year for Sky, there are challenges ahead. Last year, Ofcom concluded its Pay TV Review with a ruling that Sky must wholesale some of its premium channels at regulated prices to other distributors. We believe that this is the wrong decision and that our prices are fair, both for consumers and for the other companies which carry our channels. This is a marketplace in which customers are very well served, with more choice and more innovation than ever. We have begun an appeal process.

Beyond the challenge of unwarranted regulation, the outlook for the economy and consumer spending remains uncertain, particularly as the new Government takes action to reduce the budget deficit. At the same time, we continue to operate in a competitive and dynamic marketplace, in which both existing players and new entrants challenging for customers attention and business. As we move into the next financial year, we intend therefore to maintain a high degree of flexibility in order that we can respond to both challenges and opportunities as they arise.

It is important to emphasise that the scale of the opportunity ahead of us remains substantial: around half of UK households have yet to choose a pay TV service and almost 80% of our existing TV customers do not yet take both broadband and talk from Sky. Notwithstanding factors outside our control, we believe that, with a clear direction and a consistent set of priorities, the business is in good shape to take advantage of these opportunities.

We're proud of the contribution that Sky makes to life in the UK and Ireland: opening up more choice, investing in great TV, innovating for customers and contributing to the wider economy. But we want to go further by using our capabilities to make a difference to the issues that people care about.

In addition to our commitment to doing the right thing in our day-to-day operations, we focus on three areas where we believe we can make a real difference: helping to protect the environment and tackle climate change; encouraging participation in sport at every level; and opening up the arts to more people. This has been a year of good progress in each of these areas.

We are taking more action to minimise our environmental impact through a new set of challenging targets, including a 25% reduction in gross CO_2 emissions (tonnes/£m turnover) by 2020. Beyond our own footprint, we have launched a new project with WWF, Sky Rainforest Rescue, to help save three million hectares of rainforest in Brazil. Fundraising is on track and the project is progressing well on the ground.

In sport, around 100,000 people of all ages and abilities joined in our Sky Ride programme of traffic-free events in its first year. For summer 2010, we've doubled the number of cities hosting Sky Ride events and, in parallel, we hope that our new professional road racing team, Team Sky, will provide inspiration as it competes in its first season.

This year also saw the 1,000th school join our Sky Sports Living for Sport initiative, which uses participation in sport to inspire young people to be the best they can be. The initiative, run in partnership with the Youth Sport Trust, has already reached more than 25,000 students to date, helping them to grow in confidence and self-esteem.

Alongside our portfolio of Sky Arts channels, we're also one of the UK's largest corporate supporters of the arts, partnering organisations like English National Ballet and supporting events such as the Hay Festival. Our partnership with Artichoke, the UK's leading public art producer, has delivered a number of exciting projects this year, including Antony Gormley's One & Other project in Trafalgar Square and the Lumière festival of light in Durham.

Initiatives like these are not just the right thing to do; they are good business. They give people more reasons to join Sky and stay with us, whether that's customers, employees or business partners. We see this as a vital component of long-term, sustainable success.

Our talented people, as always, are the key to that success. I would like to thank them for the commitment, creativity and energy that they bring to Sky every day.

Finally, it is appropriate to re-state here that on 15 June, the Company announced that our largest shareholder, News Corporation, had approached the Board with a proposal that could lead to a future offer to take full ownership of Sky. Recognising that an offer could be in the interest of shareholders, Sky has agreed to co-operate with News Corporation in seeking the necessary clearances from the relevant regulatory authorities.

While this process continues, the Company's Independent Directors have put in place structures to uphold the interests of all shareholders. As part of these arrangements, Nicholas Ferguson, the Senior Independent Non-Executive Director, has been appointed as Deputy Chairman of the Board. The management team remains fully focused on executing against our priorities, delivering for customers and increasing returns for all shareholders.

Jeremy Darroch
Chief Executive Officer

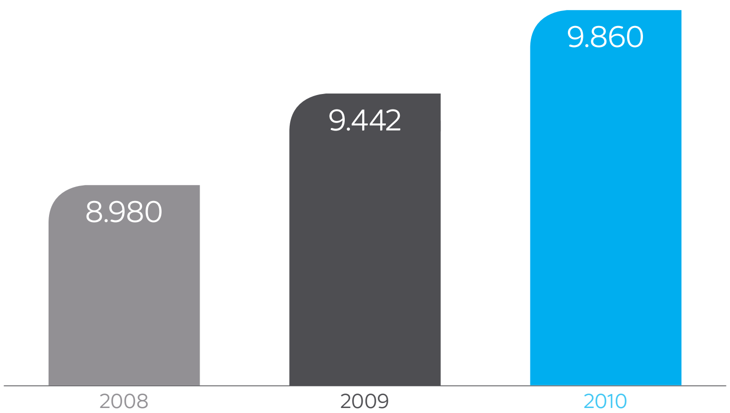
Our performance

We have a clear and consistent strategy for growth: to attract new customers to Sky and to sell more products and services to our existing customers. This year, we saw continued growth in both of these areas as customers responded to the quality and value of our products. Operational delivery translated into strong financial results, with double-digit growth in each of revenue, operating profit, earnings per share and cash flow, on an adjusted basis.

We have identified a number of key performance indicators that we use to assess how the Group is performing against its core strategic priorities. They include both operational and financial measures and are set out below. In addition to operational and financial KPIs, we have developed 10 environmental KPIs. Our performance against these KPIs, together with a comprehensive review of our environmental initiatives, can be found in the Bigger Picture Review at www.sky.com/biggerpicturereview2010.

Operational key performance indicators

Customer base (million)



Description
Total customers are defined as the total number of residential and commercial direct-to-home (DTH) customers at the close of a given period. The Group also retails certain Sky channels to a limited number of DSL subscribers which are included. This number excludes subscribers to our channels through the cable platform.

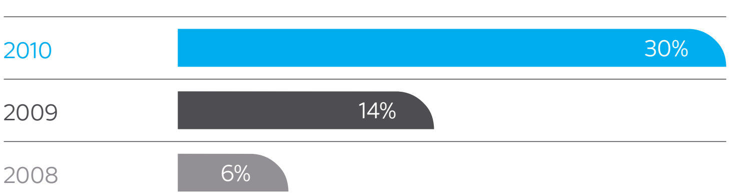
Analysis
Our total customer base is a key determinant of the Group's value. In 2010, we added 418,000 net new customers, growing the total base by 4%.

Churn (%)

Description
Churn represents the number of DTH customers over a given period that terminated their subscriptions, net of former customers who reinstated their subscription (within 12 months of their original subscription) expressed as a percentage of total average customers.

Analysis
Churn is a good measure of customer satisfaction, which is a key driver of value for our business. Churn for 2010 was in line with the previous year at 10.3%.

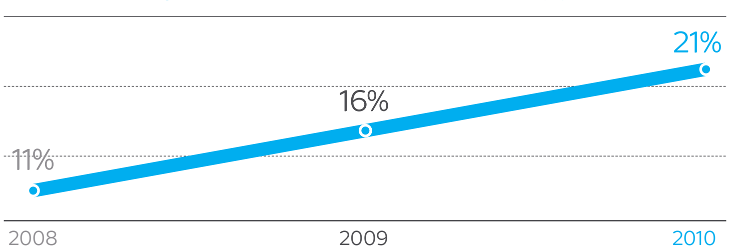
Sky+HD penetration (%)



Description
Sky+HD penetration is defined as the percentage of customers paying an additional monthly subscription to view HD content.

Analysis
Driving take-up of HD is important for customer satisfaction while also generating incremental revenue and profit. In 2010 we added 1.6 million HD customers; twice the level of the previous year.

Customers taking each of TV, broadband and telephony (%)



Description
The percentage of the total DTH customer base taking any of our TV products and both a Sky Broadband and a Sky Talk product. Customers may also opt for our line rental product.

Analysis
This is an important measure for our business, with higher penetration positively impacting ARPU and customer loyalty. At 30 June 2010, two million customers chose each of TV, broadband and telephony, up 36% from the prior year.

Financial key performance indicators

ARPU (£)

Description
Average Revenue Per User or 'ARPU' is calculated by taking the amount spent by the Group's residential customers (ex-VAT), divided by the average number of residential customers.

Analysis
ARPU is impacted by the type of subscription package taken by a customer, as well as the number of additional paid-for products. ARPU increased by £44 as customers rewarded us with more of their business.

Adjusted Group revenue (£m)

Description
Adjusted Group revenue includes revenue from retail subscriptions, wholesale revenue, advertising, revenue from Easynet and installation, hardware and service revenue. It is adjusted for any exceptional items to give a consistent yearly comparison of the business. A reconciliation of non-GAAP measures is set out on page 113.

Analysis
Adjusted Group revenue is a key measure of how the Group is delivering on its strategy to grow the business. In 2010, adjusted revenue grew by £589 million to reach £5,912 million.

Adjusted operating profit (£m)

Description
Adjusted operating profit for the Group excludes any exceptional or one-off items. A reconciliation of non-GAAP measures is set out on page 113.

Analysis
Adjusted operating profit is a key measure of the underlying business performance. It increased by 10% in 2010.

Adjusted basic earnings per share (p)

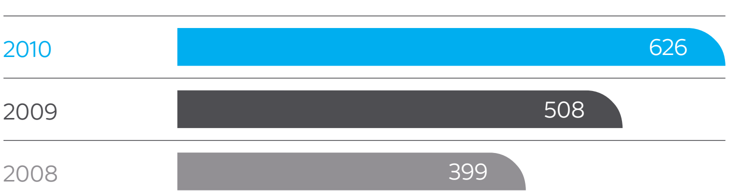
31.1p +20%
2010

2009	25.9p
2008	25.1p

Description
Adjusted basic EPS is the profit after tax for the year excluding exceptional items and related tax effects, divided by the weighted average number of ordinary shares. For further details see note 10 of the consolidated financial statements.

Analysis
Adjusted basic EPS provides a measure of shareholder return that is comparable over time. Adjusted basic EPS increased by 20% to reach a record level of 31.1p.

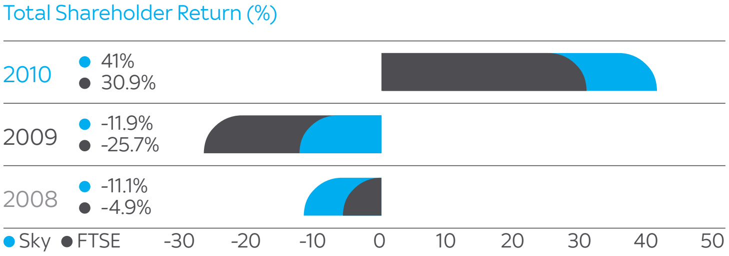
Adjusted free cash flow (£m)



Description
Adjusted free cash flow is defined as cash generated from operations after the impact of capital expenditure, interest and tax paid, cash flows to and from joint ventures and excluding exceptional items. A reconciliation of non-GAAP measures is set out on page 113.

Analysis
Free cash flow is an important measure of the Group's success in converting profits to cash flow and of the underlying health of the business. Adjusted free cash flow increased by 23% as a result of higher profitability, improved working capital and lower interest payments.

Total Shareholder Return (%)



Description
Total shareholder return represents the change in value of a share held for the 12 months to 30 June, assuming that dividends are reinvested to purchase additional shares at the closing price applicable on the ex-dividend date. The value of the share is based on the average share price over the three months prior to 30 June.

Analysis
Total shareholder return represents a comparable measure of shareholder return over time. On this basis, BSkyB shares performed ten percentage points better than the FTSE 100 index in the year to 30 June 2010.

Review of the business

Introduction

British Sky Broadcasting Group plc (the "Company") and its subsidiaries ("Sky" or the "Group") operate the leading pay television service in the UK and Ireland as well as broadband and telephony services. We commission and acquire programming to broadcast on our own channels and supply certain of those channels to cable and other operators for retransmission to their subscribers in the UK and Ireland. We retail channels (both our own and third parties') to DTH, Sky Player and Sky Mobile TV customers and certain of our own channels to DSL and iPad subscribers (reference in this Annual Report to the number of "DTH customers" includes the number of DSL subscribers to whom Sky retails its content directly). We also make three of our channels available free-to-air via the UK DTT platform, as part of the branded "Freeview" offering.

At 30 June 2010, there were 9,860,000 DTH customers to our television service, and 4,312,000 subscribers of the cable operators to whom we supply certain of our channels, in the UK and Ireland. According to estimates of Ofcom, as at 31 March 2010 (the latest data available for the year ended 30 June 2010), there were 10,200,000 homes in the UK receiving certain of our channels via DTT where DTT is the only digital TV platform supplying services (see "DTT distribution" below). Our total revenue in fiscal 2010 was £5,912 million (2009: £5,359 million), as set out in the table below.

For the year to 30 June	2010 £m	2009 £m
Retail subscription	4,761	4,177
Wholesale subscription	238	206
Advertising	319	308
Easynet	203	202
Installation, hardware and service	174	235
Other	217	231
Revenue	**5,912**	**5,359**

We operate principally within the UK and Ireland, with activities conducted primarily from the UK. Our revenue principally arises from services provided to retail and wholesale customers within the UK, with the exception of £483 million (2009: £443 million) which arises from services provided in other countries.

Our fiscal years end on the Sunday nearest to 30 June in each year. References in this document to a fiscal year ended 30 June is to the fiscal year ending on the Sunday nearest to 30 June. We publish our financial statements in British pounds sterling. References to "US dollars", "dollars", "US$", "$" and "¢" are to the currency of the United States ("US"), references to "Euro" and "€" are to the currency of the participating European Union ("EU") countries, and references to "pounds sterling", "£", "pence" and "p" are to the currency of the UK.

Our consolidated financial statements are prepared in accordance with IFRS as adopted by the EU, the Companies Act 2006 and Article 4 of the International Accounting Standard ("IAS") Regulations. In addition, our consolidated financial statements also comply with IFRS as issued by the International Accounting Standards Board ("IASB").

Certain terms used herein are defined in the "Glossary of terms" which appears at the end of this Annual Report.

The Company, a public company limited by shares and domiciled in the UK, operates under the laws of England and Wales. It was incorporated in England and Wales on 25 April 1988. Our principal executive offices are located at Grant Way, Isleworth, Middlesex, TW7 5QD, England. Tel: +44 (0)20 7705 3000. A list of our significant investments is set out in note 31 to the consolidated financial statements.

Content

We provide customers with a broad range of programming options. Content is a key factor in generating and maintaining customers. With respect to the channels we own and operate, we incur significant expense to produce and commission original programming and to acquire exclusive UK and Ireland television rights to films, certain sports events and other programming. We have also acquired the rights to market the television services of third parties to DTH customers.

Currently, we own, operate, distribute and retail 26 Sky Channels via our DTH service (or 28 including multiplex versions of the Sky Channels, but excluding simulcast channels and the business channels SkyVenue and the Pub Channel). We also simulcast most of the Sky Channels or programming from some of the Sky Channels in high definition. We currently retail to our DTH customers 160 Sky Distributed Channels (including multiplex versions of certain channels) (the "Sky Distributed Channels"). We do not own the Sky Distributed Channels, although we have an equity interest in certain of them. In addition to the Sky Distributed Channels, we currently retail to our DTH customers the Sky Box Office service (a pay-per-view service offering movies, sporting events and concerts).

The Sky Distributed Channels packages as at 30 June 2010, were as follows:

Package	3rd Party Channels
Variety Pack	39
Style & Culture Pack	23
Children's Pack	18
Knowledge Pack	24
Music Pack	16
News & Events Pack	10
ROI Bonus Mix	11
Adult Pay-Per Night	12
Disney Cinemagic*	2
MUTV	1
Chelsea TV	1
ESPN	2
MGM HD	1

* *Disney Cinemagic also available as a bonus channel to customers of both Movies Mix packages.*

We retail "packages" of channels to our DTH customers. The way they are packaged offers customers a choice of up to six "packs" of both Sky Basic Channels and Sky Distributed Channels (see "Basic Channels" below). Each pack contains channels broadly within a specific genre of interest, to which customers have the option to add a combination of Sky Premium Channels and Premium Sky Distributed Channels (see "Sky Premium Channels" below). We also offer customers the opportunity to subscribe to Sky Premium Channels without the need to subscribe to a "pack".

We also offer Sky Box Office to all our DTH customers. On the DTH platform, the Sky Premium Channels, the Sky Basic Channels (other than Sky News), Sky Box Office and the Sky Distributed Channels are encrypted in order to limit access to paying customers only.

Virgin Media ("VM" – see "Cable distribution – UK" below) carries versions of the Sky Basic and Sky Premium Channels (including multiplex channels) on its cable systems. We have also entered into agreements with BT and Top Up TV for carriage of Sky Sports 1 and Sky Sports 2 on their respective DTT services. We broadcast versions of three of the Sky Channels, Sky News, Sky Sports News and Sky 3, unencrypted free-to-air via DTT in the UK as part of the Freeview offering (see "Distribution – DTT Distribution" below). We recently announced that Sky Sports News will not be available via DTT from 23 August 2010 and will be replaced with a multiplex version of Sky 3.

We also operate a high definition TV ("HD") service which consists of: Sky1 HD, Sky Arts 1 HD, Sky Arts 2 HD, Sky Real Lives HD, Sky Box Office HD (two screens), Sky Sports HD (four channels) Sky News HD and Sky Movies HD (ten screens), The Biography Channel HD, Crime and Investigation Network HD, Discovery HD, Disney Cinemagic HD, Eurosport HD, FX HD, History HD, MTVN HD, National Geographic HD, Nat Geo Wild HD, SyFy HD, Hallmark Channel HD, E4 HD, Goodfood HD, MGM HD, ESPN HD, ESPN America HD and Rush HD. We have recently announced that we will be launching Sky Sports News HD in summer 2010. BBC HD, ITV1 HD, Channel 4 HD, Five HD and Luxe TV HD are also available on our platform.

In April 2010 Sky launched Sky 3D, Europe's first 3D TV channel with a live Premier League match available to over 1,400 pubs. Later in the calendar year, Sky 3D will offer entertainment and arts content as well as sport and movies to residential customers. The channel will initially be introduced at no extra cost for customers who subscribe to Sky's top channels and HD pack.

We hold equity interests in ventures that own certain of the Sky Distributed Channels (including certain Premium Sky Distributed Channels) which are operated and distributed in the UK (for the purposes of this report, any reference to the UK in relation to the distribution of the Sky Channels and Sky Distributed Channels includes the Isle of Man and the Channel Islands) namely Attheraces, Nickelodeon, Nick Jr., Nick Jr. 2, Nicktoons, Nicktoonsters, National Geographic Channel, National Geographic HD, Nat Geo Wild, Nat Geo Wild HD, Chelsea TV, MUTV, Comedy Central, Comedy Central Extra, The History Channel, Military History, The History Channel HD, Bio, Bio HD, MGM HD and Crime and Investigation Network HD. We also have a 33.33% equity interest in the venture operating the Sky News Australia Channel, which is based in Australia.

Premium channels

Sky Premium Channels

Sky Movies channels

Sky Movies features 9 channels of different genres divided into two packs:

Pack 1
Sky Movies Comedy
Sky Movies Family
Sky Movies Classics
Sky Movies Modern Greats
Sky Movies Drama & Romance

Pack 2
Sky Movies Action & Adventure
Sky Movies Crime & Thriller
Sky Movies Sci Fi & Horror
Sky Movies Indie
Sky Movies Comedy

The channels principally broadcast the output of recent theatrical movies and certain library movies (in respect of which we are typically granted exclusive UK and Ireland rights to broadcast during the relevant pay television window) by major Hollywood and independent US and European licensors.

Sky DTH and digital cable customers subscribing to both packs receive Sky Movies Premiere, Sky Movies Premiere +1 and Sky Movies Showcase and (in the case of DTH customers only) Disney Cinemagic without additional charge. Sky Movies Premiere and Sky Movies Premiere +1 (a delayed multiplex of Sky Movies Premiere) exclusively show titles in their first run TV windows (after the pay per view and VoD windows). The movies are recent theatrical releases, including foreign film content. Sky Movies Premiere typically broadcasts five new films per week, and two films from the previous week every day for seven days.

Each of the Sky Movies channels (other than Sky Premiere +1 and Sky Movies Classic) is also broadcast as an HD simulcast and such HD channels are available to customers to our Sky+HD service who are entitled to the corresponding standard definition channel. Sky Movies Classic HD is due to launch in 2010. Customers who take both of the Sky Movies packs and the Sky+HD service receive MGM HD without additional charge.

Sky Movies Premiere, Sky Movies Showcase, Sky Movies Action and Sky Movies Family is available on Sky Player. There are also over 500 films available for Sky Movies customers to download from Sky Player (see "Digital subscriber line and other fixed line distribution – Sky Player" below).

Sky Sports channels

The Sky Sports Channels currently are Sky Sports 1, Sky Sports 2, Sky Sports 3 and Sky Sports 4. In addition, Sky Sports HD1, Sky Sports HD2, Sky Sports HD3 and Sky Sports HD4 are available to customers to our Sky+HD service who are entitled to the corresponding standard definition channel.

Sky Sports 1, Sky Sports 2, Sky Sports 3 and Sky Sports 4 are all available online on Sky Player. Content from those channels is also available on an on-demand basis on Sky Player.

In March 2006, the European Commission rendered legally binding the Premier League's ("PL") commitment to sell live TV rights in six balanced packages, with no one bidder being allowed to buy all six packages. In February 2009, the Group successfully bid for five of those six available packages (each of 23 games) of live rights to Premier League football in the UK. These rights run from the beginning of the 2010/11 season to the end of the 2012/13 season.

In addition to those PL rights, our programming rights for the Sky Sports channels include exclusive live rights to broadcast, in the UK and Ireland, a range of sport including a number of football, rugby

Review of the business
continued

union, rugby league, cricket, golf and tennis events. Those events include: (i) broadcast rights to npower Football League matches and the Carling Cup for the 2008/09 to 2011/12 domestic football seasons; (ii) broadcast rights to the UEFA Champions League for three seasons from 2009/10; (iii) exclusive live rights to England's primary domestic cricket matches and all of England's home test matches, one day internationals and Twenty20 internationals until 2013; (iv) live rights for the International Cricket Tours of India, Australia, South Africa and the West Indies from 2006 to 2012; (v) a number of rugby union matches including autumn international matches to 2015 and Guinness Premiership matches to 2013, (vi) exclusive live rights to the Heineken Cup and the Challenge Cup until 2014; (vii) exclusive rights to all tri-nations Rugby union matches between Australia, New Zealand and South Africa, plus all summer tours to these three countries made by England, Scotland, Wales and Ireland and exclusive rights to domestic competitions in those territories, including the Super 14 Tournament and Currie Cup until December 2015; and (viii) exclusive live rights to the Ryder Cup, World Golf Championship and the PGA European Tour until 2012; and exclusive live rights to the PGA US Tour until 2017.

Basic Channels

Sky Basic Channels

Sky1 is the general entertainment flagship channel of the Sky Channels and is available to our DTH customers and certain DSL and cable subscribers. It is targeted primarily at a 16-44 age group audience and includes UK-commissioned drama, factual and family entertainment series and major event programming in addition to first-run acquired US series. Sky1 is also simulcast in HD.

Sky2 broadcasts primarily a catch-up schedule of programming from Sky1 and is complemented by Sky1's programming library and some exclusive content and is available to our DTH customers and certain DSL and cable subscribers. Sky3 broadcasts a schedule of programming from Sky1's library, content from Sky Real Lives and Sky Arts, as well as some exclusive content. Sky3 is also currently shown on some cable networks in the UK and Ireland and on DTT as part of the Freeview offering in the UK.

Content from Sky1, Sky2 and Sky3 is also available on an on-demand basis from Sky Player. Sky1 is also simultaneously streamed to Sky Player.

Sky News provides national and international news to viewers in the UK, Ireland and across the globe. The channel is broadcast unencrypted on Astra satellites (see "Satellites" below), and distributed to viewers via cable and satellite networks in Europe, Africa, the Middle East and Asia. It is also currently shown on most cable networks in the UK and Ireland and on DTT as part of the Freeview offering in the UK. Sky News is also available to viewers on the Sky News website and on Sky Player and Sky Mobile TV.

During this fiscal year, the Group launched Sky News HD, a 24 hour high definition simulcast of Sky News available to its Sky+HD customers. Sky News HD is the first HD news channel to air in the UK.

Sky Sports News provides 24-hour national and international sports news coverage. It is currently available to our DTH customers, some cable and DSL subscribers in the UK and Ireland and in the UK on DTT as part of the Freeview offering in the UK (although the Group has recently announced that from 23 August 2010 it will no longer be available by these means). Sky Sports News is available online on Sky Player and on Sky Mobile TV. We have recently announced that we will be launching Sky Sports News HD in summer 2010.

Sky Arts 1 and Sky Arts 1 HD provide contemporary arts and music oriented programming and documentaries. Sky Arts 2 and Sky Arts 2 HD broadcast classical arts programming including opera, literature, theatre, cinema and dance. Both Sky Arts HD channels are available to all customers to our HD service. Individual programmes are available on an on-demand basis from Sky Player.

Sky Real Lives and its multiplexes Sky Real Lives +1 and Sky Real Lives 2 focus on real life human interest stories appealing to a female audience. Sky Real Lives is also simulcast in HD and is available on Sky Player. We have recently announced that from 19 August 2010 Sky Real Lives will no longer be available on any platform.

Sky Vegas and SkyPoker.com are interactive television channels which currently broadcast on a 24-hour a day basis and are currently available to our DTH customers.

On 4 June 2010, the Group announced that it had agreed to acquire Virgin Media Television ("VMTV") for up to £160 million in cash. The acquisition completed on 12 July 2010 at which point the Group paid £105 million to VM. Payment of the remainder is contingent on the outcome of the UK regulatory process. The VMTV Channel portfolio includes Living, Bravo, Challenge, Virgin 1 and Challenge Jackpot. The Group will not licence the Virgin brand and will announce the new Channel brand for Virgin 1 in due course.

Basic Sky Distributed Channels

Our agreements with the owners of the Sky Distributed Channels typically grant us the exclusive right to offer these channels to residential DTH customers in the UK and Ireland. The owners of the Sky Distributed Channels generally sell their own advertising time on their channels, although we act as an advertising sales representative for certain of these channels (see "Advertising" below).

Pay-per-view

Our Sky Box Office service currently offers our DTH customers television premieres of movies and occasional live sports and other special events on a pay-per-view basis. We have acquired certain exclusive DTH rights from Hollywood and independent distributors, which enable us to show their movies on Sky Box Office. Sky Box Office HD offers at least 12 movies each week in high definition on a pay-per-view basis.

Sky Anytime TV

In March 2007, the Group launched Sky Anytime TV, an on-demand service that provides access to selected programmes that are added to the service overnight with approximately 30 hours of content available at any one time. Viewers have seven days to watch programmes or store them on their Sky+ planner (see description of Sky+ in "DTH Distribution" below) as newer programmes are added and older programmes are deleted. Sky Anytime TV uses additional storage capacity on relevant set-top boxes to automatically store selected programmes for viewing on-demand and the customer's personal recording capacity remains unaffected. Sky Anytime TV is available to all Sky HD customers and customers with applicable Sky+ set-top boxes at no extra charge in accordance with their subscriptions (for example, customers who subscribe for the Sky Movies channels will have access to certain Sky Movies programming on Sky Anytime TV at no extra charge).

Distribution

We distribute our programming services directly to DTH customers through the packages described above. Cable subscribers, by contrast, contract with cable operators, which in turn acquire the rights to distribute certain of the Sky Channels from us, which they combine with other channels from third parties and distribute to their subscribers.

DTT viewers must have either an integrated digital television set or an appropriate set-top box.

As at 30 June (In thousands)	2010	2009
Distribution of Sky Channels		
DTH homes	9,860	9,442
Cable homes(1)	4,312	4,271
Total Sky pay homes	14,172	13,713
DTT homes(2)	10,200	9,900

(1) *The number of cable homes is reported to us by the cable operators.*

(2) *The DTT homes number consists of the Office of Communications' ("Ofcom") estimate of the number of homes where DTT is the only digital TV platform supplying services and includes Top Up TV DTT homes. The number of DTT homes for all periods disclosed above is based on Ofcom's Digital Television Update published quarterly in arrears. Latest data available for the year ended 30 June 2010 is at 31 March 2010.*

On 31 March 2010, Ofcom published its decision to impose wholesale must-offer obligations on Sky (the "WMO Obligations") for the channels Sky Sports 1, Sky Sports 2, Sky Sports 1 HD and Sky Sports 2 HD (the "Channels"). This decision brings to an end Ofcom's three year Pay TV Investigation. In June 2010, Sky appealed Ofcom's decision to the Competition Appeal Tribunal ("CAT").

The WMO Obligations require Sky, amongst other things, to offer, on a wholesale basis, the Channels to third parties which satisfy various minimum qualifying criteria (including financial, technical and security criteria).

The WMO Obligation specifies maximum prices that Sky may charge for Sky Sports 1 and/or Sky Sports 2. Those prices will be increased in September 2010 when Sky raises its retail prices (under the WMO Obligations, the wholesale price is linked to Sky's retail price).

The WMO Obligations do not specify a maximum price for Sky Sports 1 HD and/or Sky Sports 2 HD. Rather, Sky is required to offer these channels on a fair, reasonable and non-discriminatory basis.

In April 2010, Sky applied to the Competition Appeal Tribunal ("CAT") for a suspension of the implementation of the WMO Obligations. On 29 April 2010, Sky's application was resolved by way of an agreed Order from the President of the CAT. The terms of the Order result in the suspension of certain aspects of Ofcom's decision pending the outcome of Sky's substantive appeal. In summary, the effect of the Order is as follows:

- Sky is required to offer Sky Sports 1 and Sky Sports 2 to each of BT, Top Up TV and Virgin Media for distribution via Digital Terrestrial TV and Virgin Media for distribution via cable. Other parties may apply to the CAT to be added to the list of persons to whom Sky is required to offer its channels.
- In the event that BT, Top Up TV or Virgin Media enter into a distribution agreement for Sky Sports 1 and/or Sky Sports 2, the distributor is required to pay Sky the equivalent of the maximum price Sky may charge for the channel(s) under the WMO Obligation. The difference between that price and the relevant rate card price will be paid into escrow.
- At the conclusion of Sky's appeal, the CAT will determine the distribution of the monies held in escrow.

On 1 June 2010, Sky submitted its appeal against Ofcom's decision to impose the WMO Obligations, on the following grounds:

- Ofcom had no jurisdiction to adopt its decision under its sectoral powers;
- Ofcom erred in finding that Sky acted on an incentive to withhold supply of the Channels;
- Ofcom erred in its assessment of the impact and proportionality of the WMO Obligations; and
- Ofcom acted unlawfully in imposing the WMO Obligations.

In March 2010 Ofcom stated that the Group's premium movie channels are not, at this stage, to be subject to wholesale must-offer obligations. However, Ofcom is currently consulting on a market investigation reference to the Competition Commission ("CC") in relation to various markets related to premium movies. In its consultation, Ofcom stated that it has concerns about alleged restricted exploitation of subscription video-on-demand movies.

DTH distribution

As at 30 June 2010, the total number of DTH customers in the UK and Ireland was 9,860,000, representing a net increase of 418,000 customers in the fiscal year. DTH churn in total was 10.3% in fiscal 2010 (2009: 10.3%). We define DTH churn as the number of DTH customers over a given period who terminate their subscription in its entirety, net of former customers who reinstate their subscription in that period (where such reinstatement is within a twelve month period of the termination of their original subscription) expressed as an annualised percentage of total average customers. In fiscal 2010, we derived £4,761 million (81%) of our revenue from DTH subscription revenue (2009: £4,177 million (78%)).

We also offer a number of our services, including our HD service, to commercial DTH customers in the UK and Ireland under a range of contracts. The types of contract, and the channels, which are available to any particular commercial customer depend primarily upon the type of business premises within which such customers wish to show our services. Our commercial DTH customers include offices, retail outlets, hotels, pubs and clubs. Each such operator with a SMATV system is considered to be a single commercial DTH customer regardless of the number of points (e.g. rooms in a hotel) within the premises to which the television signal is distributed.

Digital satellite reception equipment

In order to receive our DTH service, customers are required to have a digital satellite system, which includes a satellite dish and LNB (low noise block converter), a digital satellite receiver ("set-top box"), a smartcard (see "Technology and Infrastructure" below) and a remote control. We have in the past worked closely with selected

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manufacturers who have manufactured digital satellite receivers for us based on our specifications. We announced in January 2010 that our intentions were to source all our digital satellite receivers from our own manufacturing division and supplies from third party manufacturers ceased in May 2010. We work closely with a number of selected electronic manufacturing service suppliers.

During fiscal 2010, we have continued to offer the Sky+ box and Sky+HD box. These are set-top boxes that we have developed which contain two satellite tuners and an integrated PVR allowing programming to be recorded directly on to a hard-disk contained within the box. This enables DTH customers to watch one live satellite programme (or a previously recorded programme) while simultaneously recording another or to record simultaneously two programmes, to pause or rewind live television and to record automatically some series of programmes. Sky+ customers need a Sky+ subscription to use the Sky+ recording features of the Sky+ and Sky+HD box. DTH customers receive the Sky+ subscription for free.

Customers with a Sky+HD box receive a number of Channels which depends on the basic package to which they subscribe and the other premium channels they have chosen.

DTH customers with a Sky+ subscription and a compatible Sky+ or Sky+HD box can also receive Sky Anytime TV at no extra cost (see "Sky Anytime TV" above).

We also offer our customers the opportunity to purchase up to seven extra Digibox receivers, or three Sky+ or Sky+HD boxes for use at the same residence as their original set-top box, which enables them to watch different satellite programmes in different rooms at the same time using just one satellite dish.

Both digital satellite reception equipment and subscriptions to our DTH services are offered by us directly and through a variety of retailers in both the UK and Ireland. We also provide installation and equipment repair services. Some of the channels offered in Ireland differ from those offered in the UK.

Sky Broadband

We launched Sky Broadband, our broadband internet access service in 2006. As at 30 June 2010, our broadband network covered approximately 70% of UK households.

For customers covered by our broadband network, two different broadband products are available: Sky Broadband Everyday Lite; and Sky Broadband Unlimited. Both products offer up to 20Mb download speeds and up to 1.3Mb upload speeds. Sky Broadband Everyday Lite is limited to a 2GB monthly usage allowance whereas Sky Broadband Unlimited has no limit on monthly usage.

We also offer Sky Broadband Connect to customers in the UK who are not within the coverage area of our broadband network. Sky Broadband Connect offers up to 8 Mb download speeds and 40GB monthly usage.

Sky Broadband Unlimited is now available to customers who do not take a television service from Sky.

Sky Talk

Sky Talk is a telephony service available to all of Sky's customers in the UK. Sky Talk Freetime offers customers free evening and weekend calls of up to an hour to UK landlines and Sky Talk Unlimited offers customers unlimited calls (for up to one hour per call) and unlimited calls to certain international destinations.

Sky Talk customers are also able to take their telephony line rental directly from Sky.

As with Sky Broadband Unlimited, Sky Talk is now available to customers who do not take a television service.

Online

We own and operate a number of established websites including sky.com, skysports.com and sky.com/news. Sky's full-service online portal encompasses e-mail and search to sit alongside skysports.com and sky.com/news websites.

Sky also extended its commitment to protection of its customers by introducing the Sky Security Centre where users can obtain information and products relating to online security and protection.

Sky Active

We offer our viewers enhanced and interactive services. We offer enhanced broadcast applications behind a number of Sky Channels, including Sky Movies Active (behind our movie channels), Sky Sports Active (behind our sports channels), Sky News Active (behind Sky News) and the interactive betting service available behind SkyPoker.com and Sky Vegas. We offer interactive services which can be accessed whilst the programming on the channel to which the interactive service relates stays in view.

Sky Betting and Gaming

The Group offers a range of betting and gaming services under the "Sky Bet", "Sky Poker", "Sky Vegas" and "Sky Bingo" brands in relation to which the Group acts as bookmaker and operator. The Sky Bet fixed odds sports betting service is licensed by the Alderney Gambling Control Commission and is available across multiple platforms, including by means of set-top boxes (including Sky+ and Sky+HD), by telephone and on the internet (including the mobile internet). Customers can also bet on virtual dog and horse racing on the Sky Vegas channel. Sky's gaming operations, which include poker, bingo and an online casino are also licensed in Alderney. The Group also continues to develop a range of popular games products on the internet (at www.skyvegas.com) through the Sky Vegas 24/7 games service. In accordance with the licensing structure of transactional gambling channels introduced in June 2009 by Ofcom, the Sky Poker and Sky Vegas channels operate as teleshopping channels rather than as editorial channels. Sky Bingo was launched on the internet in December 2007. The gambling business is certified by the Gambling charity Gamcare and has in place stringent social responsibility measures for the protection of minors and other vulnerable people. We take active measures to prevent persons resident in the US participating in our internet gaming and betting services.

Digital subscriber line ("DSL") and other fixed line distribution

Sky Player

Sky Player is a PC-application that provides access to a range of live channels, including certain of the Sky Channels, as well as on-demand programmes including Sky Sports, Sky1, Sky News, Sky Arts and Sky Movies programming. Sky Player is also available on the Xbox and on Fetch TV Smart Boxes.

Customers can access a range of entertainment, sports and movies content with Sky Player via www.sky.com/skyplayer provided they have a compatible computer and operating system. This offers downloads and streamed content to any PC or Mac with internet access. The cost and availability of content depends on whether the customer is a DTH customer and what DTH subscription package they have. Certain content is available on a pay-per-view and subscription basis.

Sky By Wire

"Sky By Wire" refers to television services retailed directly by us over the fixed line networks of other operators in the UK and Ireland.

The most significant of these is TalkTalk TV (previously Tiscali TV) which distributes pay television services by means of the TalkTalk network. Under arrangements in respect of TalkTalk TV, we have access to the TalkTalk TV platform to enable us to retail certain of the Sky Premium Channels to customers who already subscribe to TalkTalk TV services. In addition, we are provided with certain customer management, billing and sales agency services in respect of our customers receiving Sky Premium Channels via its platform. In return for these services, we pay a fixed monthly fee per subscriber who subscribes to a Sky Premium Channel on the TalkTalk TV platform.

Mobile networks

Sky Mobile Applications and Sky Mobile TV

Sky Mobile TV offers a combination of live linear channels and made for mobile streams covering Sports, News and Entertainment content. The mobile TV service is available via mobile network operators and also as an application on the iPhone and iPad direct from Sky. In addition we offer a range of Sky mobile applications, Sky+ to enable remote recording, Sky News for breaking news stories and video, Football and Cricket Score Centres for live scores and commentary. The applications are available on a range of compatible mobile handsets and across all mobile networks.

Cable distribution

UK

VM provides both analogue and digital cable services across its cable systems and accounts for the majority of our wholesale revenue, which is revenue derived from the supply of Sky Channels to UK and Irish cable platforms. In fiscal 2010, we derived £238 million in subscription fees from cable operators (2009: £206 million).

On 4 June 2010, the Group entered into a number of agreements providing for the carriage of certain Sky SD and HD Channels on VM's cable TV service. The agreements became effective on 12 July 2010 and cover the following:

- New carriage agreements will secure wholesale distribution of Sky's basic channel line-up, including Sky1 and Sky Arts, and the newly acquired VMtv channels (see "Basic channels" above), on VM's cable TV service.
- For an incremental wholesale fee, VM will, for the first time, have the option of carrying any of Sky's basic HD channels, Sky Sports HD 1 and Sky Sports HD 2, and all Sky Movies HD channels.
- VM will be able to make available on-demand TV services provided by Sky consisting of content from Sky's basic and premium channels, including the newly acquired VMtv channels. VM will also have access to red button interactive sports coverage and the opportunity to deliver selected standard definition programming over the internet.

Cable operators are able to offer their subscribers any choice or combination of the Sky Premium Channels pursuant to the terms on which we supply such channels. We negotiate separate commercial arrangements with each cable operator for the carriage of the Sky Basic Channels (see also "Distribution" above).

We have contracts with Smallworld, Newtel and Wightcable for their distribution of all of the Sky Basic Channels. These three regional cable operators operate the only other major pay TV cable services outside the VM network, covering the Borders region, Jersey and the Isle of Wight respectively.

In addition, several of the Sky Channels are distributed on a number of narrowband cable networks. These are generally smaller cable operators that have limited channel capacity (when compared with digital satellite or digital cable) and accordingly do not generally carry all of the Sky Channels.

Ireland

We currently have arrangements in place with UPC Communications Ireland Limited ("UPC") for the re-transmission of certain of the Sky Channels, including Sky Basic and Sky Premium Channels, to their subscribers. UPC operates both analogue and digital cable services in Ireland.

In addition, several of the Sky Channels are distributed on a number of local cable networks in Ireland. These are generally smaller cable operators that have limited channel capacity (when compared with digital satellite or digital cable) and accordingly do not generally carry all of the Sky Channels.

DTT distribution

We currently broadcast versions of three of our channels, Sky News, Sky Sports News and Sky 3, unencrypted free-to-air via DTT in the UK. These channels are broadcast on a DTT multiplex for which the licence is held by Arqiva Services Limited (which owns and operates shared wireless communications and broadcast infrastructure). We recently announced that Sky Sports News will not be available via DTT from 23 August 2010 and will be replaced with Sky 3+1.

The channels broadcast via DTT by us, together with a number of other channels broadcast free-to-air via DTT by other broadcasters, are marketed to consumers under the generic brand "Freeview".

In June and July 2010 the Group entered into agreements providing for the carriage of Sky Sports 1 and Sky Sports 2 via DTT on BT Vision's TV service and Top Up TV's service from August 2010.

Free-to-view satellite proposition

We offer purchasers a freesat proposition with access to over 270 free-to-view television and radio channels (including regional variants) and interactive services, without a monthly subscription

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fee. Consumers must purchase a package of digital satellite reception equipment, including a digital satellite smartcard and standard installation, to take advantage of this offering. The purchasers of this proposition are not obliged to subscribe to our pay television service; however, the proposition offers an easy upgrade path to our DTH pay television service.

Emerging forms of distribution

We are also evaluating various other possible new means of distributing our services other than by DTH, cable, DSL and DTT, such as wireless broadband using Wimax or other similar technologies, mobile TV using technologies such as MediaFLO by Qualcomm and IP Wireless/ TDtv.

We also participate actively in the Digital Video Broadcasting ("DVB") standardisation group both in the various working groups and at the level of the DVB's Steering Board, which gives us early exposure to other emerging technologies.

Seasonality

Historically, DTH customer acquisitions have tended to be higher in the first half of our fiscal year, which, as a result of us expensing the cost of acquiring customers as incurred, has tended to provide a modest weighting of profit towards the second half of the year. There can be no assurance that these trends will continue in the future.

Marketing

The principal types of marketing used by us to promote our products and services are press (including both national and regional newspapers and magazines), media inserts, door drops, direct mailings, outdoor activity (such as billboards and bus backs), on-air advertising on both national and regional radio and television channels (on both promotional and commercial airtime), outbound calling, online advertising on both third party websites and on sky.com, advertising in our customer magazine, point of sale advertising in retail outlets which sell our products and services and Sky retail stores.

Advertising and sponsorship

In fiscal 2010, we derived £319 million of our revenue from advertising sales and sponsorship (2009: £308 million).

We sell advertising for all of the Sky Channels (as well as for their multiplexes) around all programmes broadcast on these channels. We also act as the advertising sales representative for certain third party channels. We sell advertising time across all of the Sky Channels and third party channels represented by us, and tailor distribution according to the target audience an advertiser is trying to reach. We also sell advertising on-line.

Competition

Sky is a channel provider, a distributor of television services and a DTH (satellite) platform service provider. Sky also offers broadband and telephony services, as well as a range of other services including variants of video on demand (VOD) via the set-top box and online, games via both interactive TV and the internet, and betting and gaming services via TV, telephone and the internet.

Sky competes with a number of communications and entertainment companies to secure a supply of content, for audiences for that content, for advertising sales and for customers to its DTH and other related services, broadband and telephony services (see "Principal Risks and Uncertainties" below). This competitive set can be categorised as follows:

- competition from other video distributors and video distribution channels;
- competition from broadband and telephony (fixed and mobile) providers;
- competition from other television channels; and
- competition from sellers of advertising air time.

In recent years, large parts of telecoms network infrastructure have been upgraded from circuit-switched networks to packet-switched ("IP") networks. These IP networks are able to carry video content in addition to voice and other data and, together with the digitalization of content, have facilitated a convergence between media and telecoms companies.

This technical convergence has also increased the propensity for companies to offer a bundle of services to customers (typically, a "triple play" of broadband access, telephony and video content) as they seek to make efficient use of their networks.

Technology and infrastructure

We control access to some DTH channels through the use of a conditional access system, VideoGuard (see "Encryption of digital services" below). The satellite reception equipment provided to DTH customers is owned by them, except for certain aspects such as the smartcard (a credit card size plastic card containing a chip that provides conditional access functionality), some of the software in all set-top boxes and a proportion of the hard drive capacity in some of the Sky+ PVRs and Sky+HD PVRs.

The Group completed its acquisition of Amstrad in fiscal 2008. Amstrad designs, develops and sells standard definition and high definition set-top boxes and PVR set-top boxes and has been a major supplier to the Group for a number of years.

Our set-top boxes use an EPG which has been and continues to be developed for us by NDS Limited ("NDS") and an operating system which we license from OpenTV, Inc. ("OpenTV"). The OpenTV operating system provides a virtual machine interface which enables applications to be authored once, yet still be capable of running on all our different types of DTH set-top box once the application is downloaded to the set-top box. This simplifies the development of applications for the set-top box and ensures universal availability of services to all DTH set-top boxes. The operating system in each set-top box is licensed upon payment of a per set-top box royalty by the set-top box manufacturer to OpenTV.

Later this calendar year we will deploy a new operating system into our HD capable set-top boxes. This operating system has been developed in conjunction with NDS under the project name Darwin, and will support the launch of the Sky Anytime+ (VOD) service, as well as providing a significantly more flexible platform for the development of additional new features and functionality.

Encryption of digital services

VideoGuard is a conditional access technology which can be used to encrypt and decrypt digital television and audio services. We use it to control DTH viewers' access to encrypted satellite non-subscription channels and encrypted digital pay and pay-per-view television and audio channels broadcast on digital satellite for reception in the UK and/or Ireland.

We use the VideoGuard technology and distribute smartcards in the UK and Ireland under an agreement with NDS. NDS supplies smartcards and undertakes ongoing security development and other support services in return for the payment of fees by us.

In conjunction with NDS, we maintain a policy of refining and updating the VideoGuard technology in order to restrict unauthorised DTH reception of our services. We take appropriate measures to counter unauthorised reception, including the implementation of over-the-air countermeasures altering authorised smartcards in a manner which then renders counterfeit smartcards obsolete and seeking legal remedies, both civil and criminal, reasonably available to us.

The second routine replacement of digital smartcards since our digital launch in 1998 was successfully completed earlier this year. The new smartcards deployed include various additional counter-piracy measures which provide us with an improved capability to counteract attempts to hack our system.

We seek to work with cable operators in the UK to investigate the use of any cable piracy devices. We believe that we have suffered a loss of wholesale cable revenue as a result of the availability of cable piracy devices (in relation to both analogue and digital cable television services). We are unable to quantify this loss, including whether or not such loss is material. We have not (to date) invoiced any cable operator in respect of such lost cable revenue and such lost revenue has not been recognised within our consolidated financial statements.

We distribute our channels to cable operators via satellite. To enable reception of the satellite signal, a smartcard is located at the site of the cable operator's feed into its cable transmission system, permitting decryption of the signal, which the operator in turn distributes to those of its subscribers (often reencrypted) who are authorised and equipped to receive the service.

Encryption of channels retailed by third parties

Any potential DTH broadcaster wishing to operate and independently retail an encrypted television service within the UK and Ireland must either acquire an alternative encryption and conditional access technology from someone other than us, and build its own decoder base capable of receiving transmissions encrypted using that technology, or, in respect of digital services, contract with us for conditional access services in respect of access to the installed VideoGuard decoder base.

In addition to providing broadcast conditional access services, both for our own DTH offerings and those of third parties, we provide digital access control services for interactive services produced by us and others, including using a telephone return path to carry out transactions between suppliers and viewers. These broadcast conditional access and access control services are regulated by Ofcom and require the Group to provide these services upon request and on fair, reasonable and non-discriminatory terms. The Group is also required to provide electronic programme guide ("EPG") services to broadcasters on fair, reasonable and non-discriminatory terms.

Satellites

We contract with SES Astra for the majority of capacity on the satellite transponders that we use for digital transmissions for reception by both DTH viewers and cable operators. SES Astra is 100% owned by SES, a Luxembourg company listed on the Luxembourg Stock Exchange and Euronext Paris. We consider that this arrangement with SES Astra, which is discussed below in further detail, is essential to the business of the Group within the meaning of section 417(5)(c) of the Companies Act 2006.

For the transmission of our DTH service, we have contracted for capacity on 31 transponders from SES Astra on SES satellites Astra 2A, 2B and 2D. We have also contracted, via an agreement with Arqiva, for capacity on four transponders on the Eurobird satellite, which is owned and operated by Eutelsat. In June 2009, we signed a long term transponder arrangement with SES Astra which covers the renewal of the arrangements on 24 of our transponders. The new transponder agreements have expiry dates between 2019 and 2025 and thus provide long term security for the platform. As part of this arrangement we also entered into an inter-satellite back-up transponder agreement which provides protection for all of our transponders in the event of transponder or satellite failures.

In addition to using some of the transponder capacity that we have contracted to broadcast Sky Channels, some of our transponder capacity (and in some cases all of the capacity on a particular transponder) is sub-contracted to third parties for the transmission of other channels or services, including certain of the Sky Distributed Channels.

We have been designated a "non pre-emptible customer" under each of our transponder agreements. This means that, in the event of satellite or transponder malfunction, our use of these transponders cannot be suspended or terminated by SES Astra or Eutelsat in favour of another broadcaster with pre-emption rights in preference to us.

We have also put in place disaster recovery plans in the event that we experience any significant disruption of our transponder capacity. To date, we have not experienced any such significant disruption. However, the operation of both the Astra and Eutelsat satellites is outside our control and a disruption of transmissions could have a material adverse effect on our business, depending on the number of transponders affected and the duration of the disruption.

Our transponder agreements with SES Astra provide that our rights are subject to termination by SES Astra in the event that SES Astra's franchise is withdrawn by the Luxembourg government.

Capital expenditure programme

We continue to invest consistently in capital expenditure required to support our growth strategies. Total capital expenditure for the Group was £455 million in 2010. This included £341 million invested in core services; information systems infrastructure; broadcast infrastructure; broadband and telephony infrastructure; new product development; and investments relating to customer service improvements. In addition, £114 million was invested in new property and property improvements including £57 million for the

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purchase of freehold land adjacent to the Osterley site which was subsequently let back to the current occupant in the short term.

In November 2007, the Group began construction work on a building to house studios, production and technical facilities as well as office space in Osterley, Middlesex. The project will be financed from existing cash balances for the foreseeable future although the Group may sell and leaseback the property and its freehold in the future. During the period to 30 June 2010, total expenditure on the construction element of this project was £31 million, which is included within the total estimated construction cost of around £156 million. The Group's capital expenditure in respect of the technical fit out was £14 million, with a further £63 million expected, taking the total technical fit out expenditure to £77 million. The facility is due to enter service in calendar year 2011 and will allow the Group to benefit from efficiencies by moving to a wholly digital production environment.

As is common with capital expenditure projects of this scale, there are risks that they may not be implemented as envisaged; or that they may not be completed either within the proposed timescale or budget; or that the anticipated business benefits of the projects may not be fully achieved.

The customer management centres and Sky In-Home Service Limited

Our customer management centres are based in Scotland, Stockport and Leeds. The centres' functions include the handling of orders from customers, the establishment and maintenance of customer accounts, invoicing and revenue collection, telemarketing and customer service. These functions permit the centres to play a key role in both customer acquisition and customer retention. We provide customer management services for the Sky Channels and the Sky Distributed Channels. We also deliver customer services for both our own, and certain third party, interactive television services, our telephony services, our broadband services and our video-streaming services.

The customer management centres also provide nationwide installation and servicing of digital satellite reception equipment directly in customer homes. The Group also provides an aftercare service to the DTH customer base in relation to digital satellite reception equipment which is both in, and out of, warranty.

Playout and uplink facilities

Our uplinking facilities, located in southern England, provide uplinking capacity for our digital services to the Astra 2A, 2B and 2D satellites as well as Eutelsat's Eurobird 1 satellite.

Our television channels are distributed from two sites with each of the sites providing backup service for the other. The Osterley sourced channels are fed to the uplink sites using a fibre link, which is backed up by a diversely routed secondary link in the case of any malfunction in the primary fibre route. This route passes through the other facility so that, in the case of one facility being unavailable, the services can be uplinked directly from the other facility.

For those third parties to whom we sub-contract transponder capacity, we usually have agreements in place to provide uplinking facilities as well.

Minority equity investments

ITV

On 17 November 2006, the Group acquired 696 million shares in ITV plc ("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, and was funded by the Group's existing cash balances and its previously undrawn revolving credit facility. This investment has been subject to an in-depth review by the CC the outcome of which, Sky appealed to the Court of Appeal ("CoA"). On 21 January 2010 the CoA delivered its judgment upholding the Secretary of State's decision requiring Sky to divest its shareholding in ITV to below 7.5%.

On 9 February 2009 the Group announced that it had successfully placed a shareholding of approximately 10.4% in ITV plc in accordance with the final undertakings given by Sky to the Secretary of State for Business, Innovation and Skills relating to Sky's investment in ITV. The placing by Sky of 404,362,095 ITV shares with Morgan Stanley Securities Limited at 48.50p per ITV share resulted in aggregate consideration of approximately £196 million. The Group has confirmed that it intends to retain its residual investment in ITV of just under 7.5% for the medium term and to remain a committed shareholder of ITV (see also "Directors Report – Financial Review – Financial and Operating Review").

Significant agreements

The Companies Act 2006 requires us to disclose the following significant agreements that take effect, alter or terminate on a change of control of the Company:

Premier League

In 2009, British Sky Broadcasting Limited (a group subsidiary) entered into an agreement (the "PL Licence") with The Premier League Limited (the "PL"), pursuant to which the Group was awarded five of six available packages of live audio-visual rights for Premier League football (the six packages are together the "Live Packages").

The PL will not award all of the Live Packages to a single licensee (either on its own or as part of a consortium or through one or more of its related parties) (the "Single Buyer Rule").

Pursuant to the PL Licence, the PL can suspend and/or terminate all of the rights which are included in, or exercisable as part of, one of the six available Live Packages in the event that a change of control of the Company occurs at any time prior to the expiry of the PL Licence which, if it had occurred prior to the award of the Live Packages to the Group, would have resulted in a breach of the Single Buyer Rule.

Revolving Credit Facility

The £1 billion revolving credit facility agreement entered into on 3 November 2004 was voluntarily reduced by the Company to £750 million in April 2010. This facility was cancelled in June 2010.

On 19 June 2009, the Company entered into a £750 million forward starting syndicated credit facility available for drawing from 30 July

2010 and expiring on 31 July 2012. This forward starting facility was amended in June 2010. The facility was extended by one year to 31 July 2013 and the start date brought forward to June 2010.

There are two opportunities to request an extension of one further year to the RCF, at the lenders' discretion, with a potential final maturity of July 2015.

The lenders can require any amounts outstanding under the revolving credit facility to be repaid in the event of a change of control of the Company (other than in the event that News Corporation or any subsidiary or holding company thereof acquires such control).

News Corporation voting agreement

On 21 September 2005, the Company, BSkyB Holdco Inc., News UK Nominees Limited and News Corporation entered into a voting agreement, pursuant to which News UK Nominees Limited's voting rights at any general meeting are capped at 37.19% (the "Voting Agreement"). The provisions of the Voting Agreement cease to apply inter alia, on a change of control of the Company.

EMTN bond issue

On 3 April 2007, the Group established a Euro medium term note programme (the "EMTN Programme") which provides the Group with a standardised documentation platform to allow for senior debt issuance in the Eurobond markets. The maximum potential issuance under the EMTN Programme is £1 billion.

On 14 May 2007, the Company issued Eurobonds consisting of £300 million guaranteed notes paying 6.000% interest and maturing on 14 May 2027 (the "Notes"). The Notes were issued under the Group's EMTN Programme.

Pursuant to the final terms attaching to the Notes, a holder of the Notes has the option to require the Company to redeem or (at the Company's option) purchase its Notes at its principal amount plus interest for the relevant period if there is a change of control of the Company (i) which within 90 days of the change of control, if the Notes carry an investment grade credit rating, results in a downgrade to a non-investment grade rating or a withdrawal of that rating; or (ii) where, if the Notes carry a non-investment grade rating, results in a downgrade by one or more notches or a withdrawal of that non-investment grade rating; or (iii) where, if the Notes do not carry a credit rating, the Company does not seek such a rating or is unable to achieve such a rating, provided that in each case, the change of control is cited by the ratings agencies as being the rationale for the downgrade.

February 2008 and November 2008 bond issues

In February 2008, the Group entered into an indenture in respect of US$750 million 6.10% senior unsecured notes due 2018.

In November 2008, the Group entered into an indenture in respect of US$600 million 9.5% senior unsecured notes due 2018.

Pursuant to the final terms attaching to the securities, a holder of the securities has the option to require the Company to redeem or purchase its securities at a price equal to 101% of their principal amount plus accrued and unpaid interest up to the date of repurchase, if there is a change of control of the Company (i) which, if the securities carry an investment grade credit rating, results in a downgrade to a non-investment grade rating or a withdrawal of that rating; or (ii) which, within 90 days of the change of control, if the securities carry a non-investment grade rating, results in a downgrade by one or more notches or a withdrawal of that non-investment grade rating; or (iii) where if the securities do not carry a credit rating, the Company does not seek such a rating or is unable to achieve such a rating, provided that in each case, the change of control is cited by the ratings agencies as being the rationale for the downgrade.

UK broadcasting licences

The Group is party to a number of Ofcom broadcasting licences for the broadcast of the Sky Channels.

The Broadcasting Act 1990 (as amended by the Broadcasting Act 1996 and the Communications Act) lays down a number of restrictions on those parties permitted to hold Ofcom broadcasting licences. Among those restricted from holding Ofcom broadcasting licences or from controlling a licensed company are (a) local authorities, (b) political bodies, (c) religious bodies, (d) any company controlled by any of the previous categories or by their officers or associates, (e) advertising agencies or any company controlled by such an agency or in which it holds more than a 5% interest.

Licensees are obliged to comply with these ownership restrictions. Failure by a licensee to do so (either by the licensee becoming a "disqualified person" or any change affecting the nature, characteristics or control of the licensee which would have precluded the original grant of the licence) may constitute a breach of the licence and, if not rectified, could result in revocation of the licence.

Corporate responsibility

The Bigger Picture is part of Sky's approach to ensuring that we are being a responsible company, and doing the right thing for all of Sky's stakeholders – including our customers, people, suppliers, and the society in which we live and work. The following principles set out the way in which we will do this, and are designed to provide a framework for our activities in the UK and Ireland and our operations.

We will:

1. On a day-to-day basis, operate our business in a responsible manner, and strive to do the right thing for every part of Sky stakeholders, based on our understanding of their needs and expectations.
2. Work to foster a culture of doing the right thing and taking responsibility throughout our business so that our people will know how to act in a way that reflects these principles.
3. Create an environment where consumers can trust our products and services; and where they have the ability to consume them with minimum risk.
4. Play our part in contributing positively to issues in society where Sky believes we have a unique opportunity to make a difference, and look for ways to enable our customers and people an opportunity to join in with our efforts.

We have a formal committee of the Board, the Bigger Picture Committee, which manages our approach, provides leadership and helps to drive corporate responsibility practices throughout the business. This committee meets twice a year and is chaired by Dame Gail Rebuck, one of our independent directors. Its composition and terms of reference are detailed on page 39.

We have created a high level Environment Steering Group (ESG) to lead our activity on screen and behind the scenes. This group, chaired by our Chief Executive Jeremy Darroch, meets regularly to set challenging targets and drive progress against them. As a result of the ESG's work, we have set up a ten point plan to minimise our carbon impacts across every area of our business. We also have separate Arts and Cycling steering groups, and other groups are in place to oversee health and safety and human resources policies.

The Bigger Picture team manages our day-to-day work in this area, collaborating with colleagues across Sky to deliver our environment, sport and arts initiatives, and ensuring our commitment to doing the right thing is understood and fulfilled throughout the business.

To make sure we're focusing on the right things, we ensure that our customers, employees and other stakeholders have plenty of opportunity to share their views. Our employees can communicate their views on corporate responsibility via the Sky Forum of elected Sky employees and through the regular Sky People Survey. We continually seek feedback from customers about our products and services and our Bigger Picture activities, using tools like customer satisfaction surveys and focus groups. To help us identify specific sector issues where we need to take responsibility, we also take part in a number of forums including the Media CSR Forum, the Corporate Responsibility Group and Business in the Community. In addition, over the last year, Sky has undertaken a series of interviews across the Group to identify issues which has led to the development of a corporate responsibility risk register. This register helps us to keep track of sustainability issues across the business and develop plans to address key risks in the future.

Sky is a member of the FTSE4Good Index, the Dow Jones Sustainability Index, the Global 100 Most Sustainable Corporations list, and has achieved a 'Platinum' status in the Business in the Community Corporate Responsibility Index. Sky takes part in the Carbon Disclosure Project ("CDP") which assesses companies for potential risks and opportunities relating to climate change.

Sky produces an annual Bigger Picture Review which provides full details of all corporate responsibility activities. The online review can be found at www.sky.com/biggerpicturereview2010.

Responsibility

As a business, we have a responsibility to our shareholders and employees to continue to grow and to thrive over the long term. We also have a responsibility to deliver great products and services to our customers; to provide them with the tools to use our products and services responsibly and safely; to make these accessible and useable for everyone, and make sure these are sourced and delivered in a responsible and ethical manner.

Sky has pioneered market-leading parental control technology for our television platform, allowing parents to protect their children from material they consider inappropriate. Features include filters to prevent the viewing of selected programmes, the ability to restrict access to specific channels, complete removal of the adult channels from the listings screen, monitoring of spend on Sky Box Office and online and PIN controlled access to classified films broadcast during the day.

We provide all Sky broadband customers with free parental controls for life for their internet connection through McAfee, our internet safety and security partner, as well as offering market-leading parental tools which monitor instant messaging and chat rooms for potentially dangerous behaviours. We have worked with Childnet International, a charity focused on keeping children safe online, to ensure we are providing the best information for customers on how to use the internet safely, and we provide a number of Childnet's short films on our website, covering issues such as social networking and blogging, for parents to download. Sky is an active member of the UK Council for Child Internet Safety.

Sky takes seriously the need to provide its services in a way that encourages responsible gambling. All of the Sky Betting and Gaming team receives regular training to ensure that they are equipped with the right knowledge and skills to meet our regulatory and social commitments. We have worked hard to ensure that Sky Bet, Sky Vegas, Sky Poker and Sky Bingo have all been awarded a seal of approval from GamCare, an organisation that promotes responsible gambling, in recognition of the importance we place on delivering the highest industry-recognised standards for customer protection.

We have had a dedicated accessible customer service team for disabled or vulnerable customers since 2003. On average during 2009/10, our team of over 100 people took around 5,000 calls each week. We created an online Accessibility tool in October 2009, which provides additional support to customers with visual, hearing and mobility impairments. We continue to exceed all Ofcom requirements for subtitling, audio description and sign interpretation, and continue to provide a minimum of 20% of programming supported with audio description, which is above the

Ofcom requirement of 10%, with the exception of Sky Sports 1 and Sky News. With regards to the new Ofcom requirement for sign presented programming, Sky helped establish the British Sign Language Broadcasting Trust ("BSLBT"), which has been created, by Ofcom, as an acceptable alternative to delivering sign presented programming on low audience channels. This means Sky only provides signing on one of the 20 channels we own, Sky Sports 1, as all of our other channels are exempt.

In April 2009 our accessible remote control was awarded the Age OK accreditation from Help the Aged and Age Concern. The Sky remote was the first product in the UK to gain this accreditation, recognising products that have been designed with the needs of older people in mind. The accessible remote is provided free of charge to any customer who would benefit from it.

Sky's Responsible Sourcing Principles ensure our products are manufactured by our suppliers in a safe, ethical and environmentally aware manner. These principles explain what we expect from our suppliers and cover areas such as their environmental management and labour practices. The Group adopted the Prompt Payment Code, devised by the government with The Institute of Credit Management (ICM). Signatories of the code commit to pay suppliers on time, give clear guidance to suppliers on payment procedures and terms and to encourage adoption of the code throughout their supply chain.

Our responsibility also addresses corporate responsibility issues on screen through our programmes. If our ambition is to be the UK and Ireland's first choice for entertainment and communications, then we must have adequate measures in place to ensure we have the quality and choice in our programming that attracts people, along with the value and flexibility of our packages.

Through our programming, we aim to provide:

- Something for everyone: there are more than 500 channels on the Sky platform, covering entertainment, documentaries, movies, children's programmes, the arts, sports and religion.
- Breaking news: Sky News was Europe's first dedicated 24 hour news channel. We now have 16 news channels on the Sky platform bringing information and analysis from around the world.
- Coverage of issues: we pride ourselves on the breadth and quality of our documentaries, which bring some of the most important issues to audiences in an accessible and engaging way.
- The highest programme standards: we apply high standards to everything we broadcast on Sky channels. Whether it's a commissioned programme, live broadcast or a completed programme we've purchased, we seek to ensure it meets the expectations of our audience and complies with the Ofcom Broadcasting Code.
- Responsible advertising: advertising carried on Sky channels is checked and we seek to ensure it complies with the Television Advertising Standards Code.

More information about our work across Responsibility can be found in the Bigger Picture Review 2010, www.sky.com/biggerpicturereview2010. Information about our governance for data protection can be found on page 42.

Environment

Widespread recognition of the impacts of climate change has changed the business landscape. There haven't only been changes in regulation – the expectations of our customers and our people have changed too. They expect us to step up and take action on the issues that matter to them, and climate change is now high on their list of concerns. Minimising our environmental impact makes sense to us and is key to our future business success – not only does it help us to operate more efficiently and effectively, but it shows our customers and our people that we listen to their concerns and are prepared to act on them.

We have been focused on tackling climate change since 2005, and our approach has been two-fold. First, we have been working to reduce our own impact. In 2005, we measured our carbon footprint and in 2006 became only the second FTSE100 company to become carbon neutral.

As part of measuring our impact, our environmental performance data is independently assured by Environmental Resources Management ("ERM"). We audit our carbon footprint data each year, using the results to map out which areas to focus on to achieve the greatest reduction in our emissions. Over a five year period, between 2003/2004 to 2008/2009, we achieved an 11% reduction in total net CO_2 emissions - a great achievement, meaning that we had met our target, to reduce net CO_2 emissions by 10% by 2010, a year early. The Environment Steering Group (ESG), led by our Chief Executive Jeremy Darroch, then in October 2009 set the business ten stretching targets to minimise our most significant environmental impacts, including a target to cut our carbon footprint by 25% by 2020. Details of these targets and our 2009/10 performance against these targets can be found in the Bigger Picture Review 2010 www.sky.com/biggerpicturereview2010.

In addition, there are a number of environmental regulations that apply to Sky's business. Sky remains compliant with these regulations and, where possible, seeks to show best practice by going beyond the minimum requirements. We are also part of the new Carbon Reductions Commitment Energy Efficiency Scheme (CRC) for our operations in the UK. Sky's environmental reporting year will be changed next year to be in line with the CRC reporting year (i.e. April-March) and, as a result, performance data will be included in the 2010/11 Annual Report.

Our products do not form part of our operational carbon footprint, but we do want to help customers minimise their own impact in their homes. As part of our Green Homes initiative, we continue to provide a recycling service which offers Sky customers options to have their electronic equipment such as Sky set-top boxes, VHS players and DVD players recycled for free. This was extended to include alkaline or zinc batteries. During 2009/2010, a total of 800 staff homes were insulated with loft and cavity wall insulation and 3,000 energy monitors were given away in an effort to help staff reduce their impact at home.

As well as looking at how we as a business can reduce our impact, as a media company reaching nearly 10 million homes, we also want to inspire our customers to take action. In October 2009, in partnership with WWF, we launched Sky Rainforest Rescue, an ambitious initiative which will help to save 1 billion trees in the Amazon rainforest. We can inspire action in part through our programming, so in October 2009 and April 2010 we scheduled two

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weeks of special environment and rainforest programming, the April week coinciding with Earth Day. Programmes included the acclaimed two-part documentary on Sky1, 'Ross Kemp Battle for the Amazon', as well as Steve Jones in 'Jones Boys' Amazon Adventure'. Also in April, Lily Allen visited Brazil to see first hand the damaging effects of deforestation, with the aim of building awareness about Sky Rainforest Rescue and helping to drive donations.

To help others take action, we have partnered with Global Action Plan whose expertise lies in developing fun and practical ways to fight climate change. We have been working with Global Action Plan to develop projects for our customers and employees. We have already broken our target of investing over £1 million in Global Action Plan through cash donations, in-kind support and fundraising activities. Our projects have included working with Housing Associations to help make their housing and surrounding areas greener; and the introduction of EcoTeams within Sky to help people understand how they can tackle environmental impacts at home. Some of our employees also support Global Action Plan's Appetite for Action project, which works with schools on sustainability issues.

Further details on environmental initiatives are available in the Bigger Picture Review 2010, www.sky.com/biggerpicturereview2010.

Sport

Sport has always been at the heart of what we do at Sky. Over the past two decades, we've provided access to an unprecedented depth and breadth of sports coverage. Our multi-billion pound investment has helped British sport, from the grassroots to the elite, to develop its talent and infrastructure. More investment means better facilities, better training, better equipment, and a better experience for players and viewers alike. We also want to encourage participation in sport, help develop future talent and encourage increased participation in sports by our customers and our people. We are working towards these goals through three main partnerships.

Sky is the principal partner of British Cycling and through this partnership, Sky aims to get one million more people cycling on a regular basis by 2013. We will work to ensure the sport benefits at every level from grass roots through to the elite. At the elite end of the spectrum, we have our own professional British road cycling team, Team Sky. The team is managed by Great Britain Olympic performance director, Dave Brailsford CBE, and aims to have the first British winner of the Tour de France within five years. On the ground, our Sky Ride programme goes from strength to strength. Sky Ride is a series of mass participation events that the whole family can enjoy, and takes place around the country. Last year, we ran events in five cities with over 100,000 people taking part. As a result, research shows that 298,000 adults were cycling more frequently at the end of 2009 having been influenced by Sky's cycling activity, of which 92,000 became new 'regular' cyclists.

Sky Sports Living for Sport is an initiative which uses sport to motivate and inspire 11-16 year olds. It is freely accessible to all secondary and high schools in the UK. Over 1,000 schools have registered and 25,000 young people have benefitted to date. As each school progresses in their Sky Sports Living for Sport initiative, we organise a mentoring visit from one of our team of past and present sports stars. Our team of athlete mentors, led by ambassador Darren Campbell, former Olympic Sprinter, have life stories that highlight the highs and lows of being an athlete with the ultimate aim of showing participants that anything is possible. The initiative has been very successful with evaluation revealing that over 75% of young people taking part showed improvements in their attitude towards learning and over 70% of young people taking part have showed increased self-confidence and improved behaviour at school.

The Sky Sports ECB Coach Education Programme, in association with England and Wales Cricket Board ("ECB") is a scheme which is designed to equip coaches with the necessary skills to deliver high quality coaching programmes at all levels of the game. Participation in grass roots cricket is increasing every year – 2009 saw a 15% increase, following on from a 24% rise in 2008. Cricketers need coaches, and our training programme is meeting that demand. Since we launched the Sky Sports ECB Coach Education programme in September 2006, the scheme has trained over 23,000 grassroots coaches, providing more coaching courses and helping the ECB to deliver better quality coaching resources.

Arts

Our vision for the arts is simple – we want to bring more of the arts to more people on screen, on stage, online and on the streets. We know that many people are passionate about books, music, film, theatre, opera, art and design - and we also know that many of those people are our customers or potential customers. Whatever their interest, we want our customers to have the opportunity to explore it further. We make this possible by broadcasting more arts programming than anyone else, and by supporting the arts off-screen through a number of major partnerships.

We recognise that more people want to be able to enjoy the arts at home. With 1.9 million viewers each month, Sky Arts' reach has more than doubled since July 2008. We broadcast 48 hours of arts programming per day across four dedicated channels. Sky Arts 1 features contemporary arts programming, such as live rock concerts, documentaries and films, and it is home of our flagship programme, *The Book Show*, which this year aired each day from the Hay Festival.

Other highlights of our 2009-10 programming include Theatre Live! which saw Sky Arts achieve what no other television channel has successfully achieved – bringing live theatre back to television; uninterrupted coverage of L'Elisir D'Amour at the Glyndebourne Festival; and as well as broadcasting The Book Show, Sky Arts also took its flagship music programme, Songbook, to the Hay Festival.

In March 2010, the Sky Arts channels were awarded the Innovation Award by the Broadcasting Press Guild Awards, who regularly feature our programmes in their picks of the week, as well as Best Multichannel Programme for Sky Arts Theatre Live!, a series that saw six highly successful authors make their debuts as playwrights in summer 2009. Sky Arts was also highly commended in the Broadcast Awards, and won Best Specialist Channel at the Broadcast Digital Awards.

Our commitment to the arts does not end with the small screen. We have a two year partnership with Artichoke, a creative company which works with artists to create extraordinary events that take place in public spaces across the UK. Artichoke's ability to engage people in the arts in new and unexpected ways reflects our own commitment to bring more of the arts to more people. In 2009, Antony Gormley was the artist who was commissioned for the Fourth Plinth in London's Trafalgar Square with his project 'One and Other', in which 2,400 people spent an hour each on the plinth over a period of 100 days. The project was the first in the 2009 Sky Arts Artichoke Season, with Sky the main sponsor of the event. The innovation and quality of our coverage of Antony Gormley's One & Other was also recognised with a BAFTA Television Award nomination in the New Media category.

Once again we were the Broadcast Sponsor of the Hay Festival, which brings together the world's best writers, artists and musicians along with around 100,000 festival goers for a unique cultural experience. Our presence at the festival centres on our specially constructed on site Sky Arts studio, from where we aim to engage visitors in discussion and debate, and to provide a different perspective on the arts. This year for the first time, we offered behind the scenes tours of the Sky Arts studio, giving visitors the opportunity to try out The Book Show presenter Mariella Frostrup's chair and read from the autocue. From the studio, nearly 23,000 festival goers were able to follow the Sky Arts Path to discover different spaces around the festival, each offering a new creative experience. The path led visitors back to the studio, where they were able to contribute their thoughts and reflections to a collective Sky Arts book.

Regional media partnerships help us to provide an important platform for a diverse range of arts organisations across the UK whilst also enabling us to create exclusive content for Sky Arts viewers. We continue to produce the "Sky Arts at..." ten minute documentaries, working with 24 partners ranging from the National Theatre, The Art Fund Prize, Rankin Live, Pleasance Theatre Trust at the Edinburgh Fringe Festival, the Royal Liverpool Philharmonic Orchestra and Cork Jazz festival, enabling them to share their work with the Sky Arts audience, as well as helping us to increase our visibility in towns and cities across the UK.

Joining In

The Bigger Picture is about making a positive contribution to the communities where our people and our customers live and work. We work with our people, customers, suppliers and the wider community to make sure we're tackling the issues that matter and that we're doing it in the right way.

Sky People on full time, permanent contracts are entitled to 16 hours of paid volunteering time per year (subject to obtaining approval from their line manager) and we provide opportunities for volunteering by encouraging our people to use their talents to make a positive contribution to the communities they live and work in. Sky also offers avenues for fundraising which allow Sky People to contribute financially to the charities of their choice, through tax-free donations through their salaries, as well as Sky giving extra to the money they raise as a thank you. We have made good progress against our volunteering and payroll giving targets for all employees on Sky's payroll over the last year. Volunteering has gone from 4.78% to 18.63% in the period from June 2009 to July 2010 and payroll giving averages around 3.75% for the same period. We are on schedule to reach our volunteering target of 25% by the end of the year and for at least 7% of our people to give to charities through payroll giving in the same period.

Culture Connection is a programme to engage Sky People in the arts. Support for the arts is one of the core pillars of our Bigger Picture strategy, and we want to bring more of the arts to more of our people as well as to our customers. Just under 2,000 employees have engaged with Culture Connection this year, by winning a competition, taking part in an activity or submitting an entry for a competition, for example by writing a poem to win a weekend at Cork Jazz Festival. As part of our Rankin Live! photography project, employees across Sky were asked to Shoot Like Rankin. The five shortlisted entries won a trip to London and had their portrait taken by Rankin, who also judged the winning entries at The Truman Brewery.

Sky also provides help to schools through our initiatives across environment, sport and arts, with programmes such as Sky Sports Living for Sport and Global Action Plan's Appetite for Action, which enhance students' lives, by helping them to improve their life skills and raise their aspirations.

We continue to hold the Business in the Community's Community Mark Award for the breadth and depth of our community investment and the sustainability of the 'Joining In' programme. This was awarded to us in July 2009 and runs for three years with a yearly review to assess progress against public targets.

People

Organisation

In the past year, we have achieved a number of milestones in our aim to make Sky a great place to work and we continue our efforts to be an organisation that attracts and retains talented people.

We have an unrelenting focus on recruiting and nurturing talent, so we can build a strong team to deliver our customers the best possible service.

The average number of full-time equivalent persons employed by the Group during the year was 16,439, an increase of 1,517 from the previous year, primarily as a result of increases in supply chain and Sky retail services.

Talent Management

We believe that everyone who works for Sky should have the opportunity to develop their potential to the maximum without having to move elsewhere. This year we have further developed our leadership development programme, with over 480 of our managers and aspiring leaders attending courses.

We recently opened a Talent Hub – a training and recruitment centre – at our Kirkton Campus in West Lothian designed to offer a creative and inspiring learning environment, to help employees deliver the best possible customer service.

Future Talent

We believe in attracting and nurturing fresh "future talent" into our business and we offer a range of schemes to provide work experience opportunities. We do this is through a broad range of formal apprenticeships, graduate schemes, short and longer-term work placements, as well as through our links with a number of leading universities and educational partners.

We currently offer 41 graduate placements in the following areas of the business – marketing, finance, human resources, customer

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continued

operations, supply chain and technology. For 2011 we will also be recruiting graduates into Sky Betting and Gaming and Sky News.

Sky also offers placements to second year undergraduates on marketing "sandwich course" placements. This rotational scheme offers exposure across all marketing disciplines including: brand, marketing, business development and research areas.

For school leavers we offer apprenticeships in our supply chain and customer contact centres which includes training for a NVQ (National Vocational Qualification) over a period of two years. The scheme was launched in 2006, and so far over 200 apprentices have been employed as a result of the scheme.

We are also in our second year of Sky's Fast Forward scheme. The scheme provides 16-18 year olds from seven local schools with an 11-month placement in our entertainment and creative departments.

Sky offers a wealth of work experience opportunities and currently runs over 200 work experience and scholarship programmes.

Employee Engagement and Involvement

The Sky Forum has continued to evolve this year. The Sky Forum is a team of about 80 employee representatives from across the business, who meet several times a year to discuss a wide range of business issues and to provide input that helps Sky continuously to innovate and improve the way that we do things throughout the business.

This year the role of the Forum has evolved, to engage more specifically in working through and resolving issues rather than just bringing them to our attention, and we have had some great results in a number of areas.

Employees are encouraged to use the Company's intranet portal to keep up to date with information and developments that may interest them such as new product launches, events and Company announcements.

Recognition

Key to achieving our objectives as a great place to work is ensuring our people are recognised for their outstanding contribution.

Each business and divisional area runs individual recognition programmes to reflect their business and people achievements.

Health and Safety

The health and wellbeing of our employees is of utmost importance to us. Every employee, whatever their position, needs to be confident in their role and feel secure that the right procedures are in place to protect them.

We try to take a holistic view of health and safety and to keeping Sky a safe place to work, so while accident prevention and safety training is essential, equally important is the long term wellbeing of our employees.

Wellbeing

We support our people in keeping healthy, happy and productive by taking a holistic approach to their wellbeing, providing access to occupational health advice, support and facilities at all of our key sites.

We recognise that employees have many other responsibilities beyond their work, and do what we can to help them manage their priorities. This includes running an advisory website and 24-hour advice hotline for employees and their families, giving access to counsellors, financial management advice, information on eldercare and childcare, and health risk assessments.

Diversity

Our commitment to diversity is not driven by meeting targets – it is about having the right people for our business.

In 2009, we introduced a new diversity strategy, with a view to getting a better representation of women and people from Black and Minority Ethnic groups in leadership and management positions.

It is still early days for the strategy, but there have been some encouraging results particularly in terms of gender. We are now seeing an improvement in the ratio of women included in senior and leadership development programmes, and in the number of women recruited/promoted into the most senior roles in the company.

We believe that people with disabilities should have full and fair consideration for all vacancies and promotions. Should an employee become disabled during their employment with the Company, where possible, we will actively re-train and adjust their environment to allow them to maximise their potential.

Reward and Benefits

We recognise the importance of long service at Sky and truly value the experience and knowledge that those who have been with us for a number of years add to the business. As part of our 20th Anniversary celebrations, we introduced formal recognition for those with 20 years, 15 years and 10 years continuous service.

We've also launched a number of new online services, such as Sky Benefits Extra, which offers our people discounts at over 1,500 retailers and an online pensions system to assist our people with their retirement planning.

Efficiency

We have implemented a number of change programmes this year to deliver more of our people services through e-systems. These programmes have improved efficiency, reduced costs and support our environmental objectives. They include the delivery of payslips on line, the transfer of employee records into an electronic filing system, and online access for candidates from job application through to joining Sky.

Principal risks and uncertainties

This section describes the principal risks and uncertainties that could have a material adverse effect on the Group's business, financial condition, prospects, liquidity or results of operations. 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". 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. The regimes which affect the Group's business include broadcasting, telecommunications, competition (antitrust), 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 31 March 2010, Ofcom published its decision to impose wholesale must-offer obligations on Sky (the "WMO Obligations") for the channels Sky Sports 1, Sky Sports 2, Sky Sports 1 HD and Sky Sports 2 HD (the "Channels"). This decision brings to an end Ofcom's three year Pay TV Investigation. In June 2010, Sky appealed Ofcom's decision to the Competition Appeal Tribunal ("CAT").

The WMO Obligations require Sky, amongst other things, to offer, on a wholesale basis, the Channels to third parties which satisfy various minimum qualifying criteria (including financial, technical and security criteria).

The WMO Obligation specifies maximum prices that Sky may charge for Sky Sports 1 and/or Sky Sports 2. Those prices will be increased in September 2010 when Sky raises its retail prices (under the WMO Obligations, the wholesale price is linked to Sky's retail price).

The WMO Obligations do not specify a maximum price for Sky Sports 1 HD and/or Sky Sports 2 HD. Rather, Sky is required to offer these channels on a fair, reasonable and non-discriminatory basis.

In April 2010, Sky applied to the Competition Appeal Tribunal ("CAT") for a suspension of the implementation of the WMO Obligations. On 29 April 2010, Sky's application was resolved by way of an agreed Order from the President of the CAT. The terms of the Order result in the suspension of certain aspects of Ofcom's decision pending the outcome of Sky's substantive appeal. In summary, the effect of the Order is as follows:

- Sky is required to offer Sky Sports 1 and Sky Sports 2 to each of BT, Top Up TV and Virgin Media for distribution via Digital Terrestrial TV and Virgin Media for distribution via cable. Other parties may apply to the CAT to be added to the list of persons to whom Sky is required to offer its channels.
- In the event that BT, Top Up TV or Virgin Media enter into a distribution agreement for Sky Sports 1 and/or Sky Sports 2, the distributor is required to pay Sky the equivalent of the maximum price Sky may charge for the channel(s) under the WMO Obligation. The difference between that price and the relevant rate card price will be paid into escrow.
- At the conclusion of Sky's appeal, the CAT will determine the distribution of the monies held in escrow.

On 1 June 2010, Sky submitted its appeal against Ofcom's decision to impose the WMO Obligations, on the following grounds:

- Ofcom had no jurisdiction to adopt its decision under its sectoral powers;
- Ofcom erred in finding that Sky acted on an incentive to withhold supply of the Channels;
- Ofcom erred in its assessment of the impact and proportionality of the WMO Obligations; and
- Ofcom acted unlawfully in imposing the WMO Obligations.

In March 2010 Ofcom stated that the Group's premium movie channels are not, at this stage, to be subject to wholesale must-offer obligations. However, Ofcom is currently consulting on a market investigation reference to the Competition Commission ("CC") in relation to various markets related to premium movies. In its consultation, Ofcom stated that it has concerns about alleged restricted exploitation of subscription video-on-demand movies.

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, service providers making use of new fibre optic networks ("fibre"), other DTH 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

Principal risks and uncertainties
continued

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 or by the imposition of regulation.

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. These factors will not always be favourable to the Group and developments in those areas may therefore have a negative impact on the Group's advertising revenue. Advertising revenue may also be dependent on the viewing behaviour of the television audience. 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 video-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 customers. 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. The effect of the recent slowdown in the rate of economic growth and the recent decline in consumer confidence on the Group's ability to continue to attract and retain customers is uncertain. Therefore, the Group cannot be certain that the current 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, email platform, supply chain management systems and its telecommunications network infrastructure, including wide area network, 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 smartcards, 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 standard definition set-top boxes have significant memory constraints and as such it has been necessary to close the EPG launch queue to standard definition channels (the launch queue reopened for high definition and 3D channels in March 2010). Previously, the Group has been able to carry out software downloads from time to time to reconfigure the memory utilisation in standard definition set-top boxes and to accommodate additional and increasingly complex services. In the event that the implementation of such software downloads is no longer a course of action available to the Group, it may be limited in its ability to upgrade the services available via the standard definition set-top boxes currently installed in customers' premises.

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 smartcards which the Group provides to its individual DTH customers. Unauthorised viewing and use of content may be accomplished by counterfeiting the smartcards or otherwise overcoming their security features. A significant increase in the incidence of signal piracy could require the replacement of smartcards 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.

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 BT and failure on the part of BT to meet the Group's requirements for whatever reason may affect the Group's ability to deliver its telephony services to Sky Talk customers.

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 (backhaul extension services) and finally individual copper lines that go between the central office equipment and the end user's house (metallic path facility lines). The Group purchases these products from Openreach at regulated prices set, from time to time, by Ofcom, and 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. Outside of the Group's LLU areas the Group uses BT Wholesale's IP stream "bitstream" product to provide broadband connectivity to end users. Failure by either Openreach or BT Wholesale in fact to provide its products to the Group on a fully equivalent basis, or changes to regulated prices, could have a material adverse effect on the Group's business.

Openreach is deploying next generation access networks to some UK households based on fibre. Openreach is required by Ofcom to sell wholesale fibre access services on a fully equivalent basis. However, the price of these services is not regulated by Ofcom. Should a significant proportion of customers wish to buy fibre based broadband in future, changes in the availability, price or terms of these wholesale fibre access services could have a material adverse effect on the Group's business.

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

The Group is currently involved in capital expenditure projects including infrastructure projects. As is common with such 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, 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.

DIRECTORS' REPORT – BUSINESS REVIEW
continued

Principal risks and uncertainties
continued

The Group generates wholesale revenue principally from one customer.

The Group currently derives its wholesale revenue principally from one customer, VM. 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 VM in connection with supply of the Sky Premium and Basic 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.

Introduction

The following discussion and analysis is based on, and should be read in conjunction with, the consolidated financial statements, including the related notes, included within this Annual Report. The consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB and as adopted by the EU.

Overview and recent developments

During the current year, total revenue increased by 10% to £5,912 million, compared to the year ended 30 June 2009 ("the prior year"). Operating profit for the current year was £1,096 million, resulting in an operating profit margin of 19%, compared to 15% in the prior year. Profit for the year was £878 million, generating basic earnings per share of 50.4 pence, compared to a profit of £259 million and earnings per share of 14.9 pence in the prior year.

At 30 June 2010, the total number of DTH customers in the UK and Ireland was 9,860,000, representing a net increase of 418,000 customers in the current year. At 30 June 2010, the total number of Sky+HD customers was 2,939,000, representing 30% of total DTH customers. This represents growth in Sky+HD customers of 124% in the current year. The number of Multiroom customers also continued to grow, increasing by 286,000 in the current year to 2,121,000; 22% penetration of total DTH customers. Cable subscribers to the Group's channels increased to 4,312,000 compared to 4,271,000 in the prior year.

DTH churn for the current year was 10.3% which is in line with the prior year (2009: 10.3%).

Sky Broadband continues to grow strongly, increasing by 421,000 customers in the current year to 2,624,000. By the end of the current year, we had unbundled 1,227 telephone exchanges (representing 74% network coverage). The number of Sky Talk customers reached 2,367,000, representing an increase of 517,000 in the current year. The number of Line Rental customers increased by 769,000 in the current year to 1,686,000 of which approximately 883,000 customers are on Metallic Path Facilities ("MPF").

Corporate

The Board of Directors is proposing a final dividend of 11.525 pence per ordinary share, resulting in a total dividend for the year of 19.40 pence, representing growth of 10% over the prior year full year dividend. The ex-dividend date will be 20 October 2010 and, subject to shareholder approval at the Company's Annual General Meeting ("AGM"), the dividend will be paid on 12 November 2010 to shareholders of record on 22 October 2010.

On 26 January 2010, the Technology and Construction Court ("TCC") gave judgment in the litigation between Electronic Data Systems ("EDS") and the Group. The litigation related to EDS' former role as a supplier to the Group as part of the Group's customer relationship management project. On 7 June 2010, EDS and the Group fully and finally settled the litigation between them and all related claims (including for damages, costs and interest) for a total amount of £318 million.

On 27 January 2010, Daniel Rimer was appointed as a member of the Remuneration Committee.

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

On 31 March 2010, Ofcom published a statement regarding the outcome of its investigation into the UK pay TV industry. In its statement it confirmed the imposition of wholesale must-offer obligations on the Group under its sectoral powers in relation to Sky Sports 1 and Sky Sports 2. The Group has appealed Ofcom's decision (for further details see "Directors' report – Business review – Review of the business").

On 30 April 2010, the Group announced its intention to delist its American Depositary Shares ("ADSs") from the New York Stock Exchange and to terminate its registration and reporting obligations under the Securities Exchange Act of 1934 (the "Exchange Act"). Each ADS represents four Sky ordinary shares, evidenced by American Depositary Receipts ("ADRs"). On 19 May 2010, the listing of the Company's ADSs on the New York Stock Exchange terminated and on 21 May 2010, the Company filed a certification on Form 15F with the U.S. Securities and Exchange Commission ("SEC") to terminate the registration of its ordinary shares under Section 12(g) of the Exchange Act and to terminate its reporting obligations under Sections 13(a) or 15(d) of the Exchange Act. The Company's SEC reporting obligations are suspended upon the filing, and the terminations are expected to become effective on or about 18 August 2010 (90 days after the filing of Form 15F). The Company has maintained its ADR facility as a Level 1 ADR programme. This means that the Company's ADSs are traded on the US over-the-counter market and are quoted on OTCQX. The Company's ordinary shares will continue to trade on the London Stock Exchange.

On 4 June 2010, the Group reached an agreement with VM for the acquisition of Virgin Media Television ("VMtv") which completed on 12 July 2010, following regulatory approval in the Republic of Ireland. In completing the acquisition, the Group paid VM initial consideration of £105 million and an additional amount of up to £55 million will be paid on receipt of UK regulatory approval. VMtv has now been renamed the "Living TV Group".

On 15 June 2010, News Corporation announced a proposal relating to a possible offer for the entire issued share capital of the Company not already owned by News Corporation ("the Proposal"). The Company announced on the same date that the Proposal, which is not a formal offer, is subject to regulatory and financing pre-conditions, which add considerable uncertainty to when and whether any formal offer could be made and that the Independent Directors of the Company, who have been so advised by Morgan Stanley and UBS Investment Bank, unanimously considered the terms of the Proposal to undervalue significantly the Company. For further details see note 30 of the consolidated financial statements.

On 16 June 2010 Nicholas Ferguson was appointed Deputy Chairman of the Company.

On 19 June 2009, the Company entered into a £750 million forward starting syndicated credit facility available for drawing from 30 July

Introduction
continued

2010 and expiring on 31 July 2012. This forward starting facility was amended in June 2010. The facility was extended by one year to 31 July 2013 and the start date brought forward to June 2010. At the same time the existing facility was cancelled.

On 21 July 2010 the Group announced that it had reached an agreement over the sale of its business-to-business telecommunications operation, Easynet Global Services ("Easynet"), to Lloyds TSB Development Capital ("LDC"). LDC will pay the Group £100 million for the business on completion of the transaction, subject to regulatory approval. The Group will retain the UK network assets that it acquired as part of the original acquisition of Easynet Group in 2005. As part of the sale, the Group and LDC will enter into a long-term supply agreement to grant Easynet continued access to the Group's fibre network and Easynet will also continue to be a key supplier to the Group.

Operating results

Revenue

Our revenue is principally derived from retail subscription, wholesale fees, advertising on our wholly-owned channels, the provision of services by Easynet and installation, hardware and servicing.

Our retail subscription revenue is a function of the number of DTH customers (residential and commercial), 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.

Our wholesale subscription revenue, which is currently revenue derived from the supply of Sky Channels to cable and Internet Protocol Television ("IPTV") platforms, is a function of the number of subscribers on cable and IPTV 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 not all cable operators 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 representative.

Easynet revenue is derived from the provision of services for public and private sector customers in the UK, Europe, Asia and the US. The services provided include managed network services, managed hosting (including co-location, dedicated complex hosting and managed security services) and managed virtual meetings via high definition telepresence suites.

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

Other revenue includes income from betting and gaming activities, online advertising and mobile TV services as well as conditional access, access control and electronic programme guide fees from customers on the Sky digital platform.

Operating expense

Our operating expense arises from programming, direct networks, transmission, technology and fixed networks, marketing, subscriber management and supply chain and administration costs.

Programming costs include payment for: (i) licences of television rights from certain US and European film licensors including the results of foreign exchange programme hedges; (ii) the rights to televise certain sporting events; (iii) other programming acquired from third party licensors; (iv) the production and commissioning of original programming; and (v) the rights to retail the Sky Distributed Channels to DTH customers and Sky Player customers. The methods used to amortise programming inventories are described in section (v) of note 1 to the consolidated financial statements "Critical accounting policies and the use of judgment".

Under our current pay television agreements with the US major movie studios, we generally pay a US dollar-denominated licence fee per current movie, calculated on a per movie subscriber basis. During the year, we managed our US dollar/pound sterling exchange risk primarily by the purchase of forward foreign exchange contracts and currency options (collars) for up to five years ahead (see note 24 to the consolidated financial statements).

Under the DTH distribution agreements for the Sky Distributed Channels, we generally pay a monthly fee per subscriber for each channel, the fee in some cases being subject to periodic increases, or we pay a fixed fee or no such fee at all. A number of our distribution agreements are subject to minimum guarantees, which are linked to the proportion of the total number of customers receiving specific packages. Our costs for carriage of the Sky Distributed Channels will (where a monthly per subscriber fee is payable) continue to be dependent on changes in the subscriber base, contractual rates, viewing performance and/or the number of channels distributed.

Direct network costs include costs directly related to the supply of broadband and telephony services to our consumer and business-to-business customers. This includes call costs, monthly wholesale access fees and other variable costs associated with our network.

Transmission, technology and fixed network costs include costs that are dependent upon the number and annual cost of the satellite transponders that we use. Our transponder capacity is primarily supplied by the SES Astra and Eutelsat Eurobird satellites. Transmission, technology and network costs also include the costs associated with transmission, uplink and telemetry facilities.

Marketing costs include: (i) above-the-line spend (which promotes our brand and range of products and services generally); (ii) below-the-line spend (which relates to the growth and maintenance of the customer base, including commissions payable to retailers and other agents for the sale of subscriptions and the costs of our own direct marketing to our existing and potential customers); and (iii) the cost of providing and installing digital satellite reception equipment to customers in excess of the relevant amount actually received from customers for such equipment and installation.

Subscriber management and supply chain costs include customer management costs, supply chain costs and associated depreciation. Customer management costs are those associated with managing new and existing customers, including customer handling and customer bad debt costs. Supply chain costs relate to systems and infrastructure and the installation costs of satellite reception equipment and installation costs of new products purchased by customers such as Sky+HD, Sky+ and Multiroom set-top boxes, including smartcard costs. Customer management costs and supply chain costs are largely dependent on DTH customer levels and additions to customers in the year.

Administration costs include depreciation, channel management, facilities, other central operational overheads and the expense recognised for awards granted under our employee share option schemes.

For certain trend information related to our revenue and operating expense, see the "Trends and other information" section below.

Financial and operating review

2010 fiscal year compared to 2009 fiscal year

Revenue

The Group's revenue can be analysed as follows:

For the year to 30 June	2010 £m	%	2009 £m	%
Retail subscription	4,761	81	4,177	78
Wholesale subscription	238	4	206	4
Advertising	319	5	308	6
Easynet	203	3	202	4
Installation, hardware and service	174	3	235	4
Other	217	4	231	4
	5,912	**100**	**5,359**	**100**

To provide a more relevant presentation, management has chosen to re-analyse the revenue categories from those previously reported. Easynet revenue is shown separately and other revenue now principally includes income from Sky Bet, technical platform service revenue and our online portal.

The increase of £584 million in retail subscription revenue in the current year was driven by a 5% increase in the average number of DTH customers and a 9% increase in average retail revenue per customer, reflecting the strong take up of Sky+HD, continued growth in the penetration of broadband and telephony and the September television package price increase.

The total number of UK and Ireland DTH customers increased by 418,000 in the current year, to 9,860,000. This was as a result of gross customer additions of 1,416,000 in the current year and DTH churn of 10.3%.

Wholesale subscription revenue increased by £32 million in the current year to £238 million benefiting from the carriage of Sky Basic Channels on the VM platform throughout the fiscal year. At 30 June 2010, there were 4,312,000 (30 June 2009: 4,271,000) UK and Ireland cable subscribers to Sky Channels.

Advertising revenue increased by £11 million in the current year, primarily as a result of growth in the UK advertising sector.

Easynet revenue increased by £1 million in the current year with continued growth in corporate customers in the global networks division.

Installation, hardware and service revenue decreased by £61 million in the current year, with the increase in Sky+HD additions more than offset by the decision to lower the price of Sky+HD set-top boxes.

Other revenue of £217 million decreased by £14 million in the current year. This decrease was due to the absence of third-party set-top box sales associated with the former Amstrad business and the loss of conditional access fees from Setanta, partially offset by increased revenues in Sky Bet.

Operating expense

The Group's operating expense can be analysed as follows:

For the year to 30 June	2010 £m	%	2009 £m	%
Programming	1,902	37	1,750	38
Direct networks	518	10	373	8
Transmission, technology and fixed networks	374	7	353	8
Marketing	1,118	22	907	20
Subscriber management and supply chain	655	13	662	15
Administration	518	11	501	11
	5,085	**100**	**4,546**	**100**

To provide a more relevant presentation, management has chosen to analyse further the operating expense categories from those previously reported and has split Transmission, technology and network costs into Direct network costs and Transmission, technology and fixed network costs.

The increase of £152 million in programming expense was due to increased investment across most categories, partially offset by rate savings in movies. Sports costs accounted for two thirds of the year on year increase reflecting additional Champions League rights, new deals including the US PGA Tour golf and renewals for Rugby Super League and the Football League. Third party channel costs were also higher year on year reflecting the new retail relationship with ESPN as well as the launch of a further nine HD channels during the year and the full year impact of launches in the prior year. Entertainment and News spend increased slightly on the comparative period with increased investment in more original commissions. Increases were partially offset by lower movie costs which benefited from improved terms on recent renewals from some of the major studios.

Direct network costs increased by £145 million in the current year as a result of incremental broadband and telephony network costs due to the increasing numbers of customers.

Transmission, technology and fixed network costs increased by £21 million in the current year, reflecting higher IT costs and an increase in transponder costs as a result of a stronger Euro.

Marketing costs increased by £211 million in the current year. This increase primarily reflects the strong demand for Sky+HD throughout the period and our decision to accelerate the take up of Sky+HD through a lower retail box price.

Subscriber management and supply chain costs decreased by £7 million in the current year to £655 million, with savings achieved through greater in-sourcing of set-top box design and manufacture, offsetting the upfront cost of fulfilling demand for HD, the completion of our mailing of 11 million replacement viewing cards, and a higher volume of calls handled in relation to the roll-out of

Financial and operating review
continued

both our line rental product and the launch of ESPN and ESPN HD to Sky customers. Subscriber management and supply chain costs also included a £5 million credit for the cancellation of accounts payable on settlement of the claim against EDS.

Administration costs increased by £17 million in the current year. Included within administration expense is £1 million (2009: £3 million) of expense relating to the legal costs incurred to date on the Group's claim against EDS and £10 million (2009: nil) relating to a restructuring exercise. Excluding these items, administration costs are broadly in line with the prior year.

Total restructuring costs recognised in the year were £32 million (2009: nil), of which £22 million related to the impairment of assets associated with Picnic (the potential launch of a subscription television service on DTT) and were recorded within subscriber management costs and £10 million of which related to reorganisation costs and redundancy payments and were included within administration costs.

Litigation settlement income and investment income on litigation settlement

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

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

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

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

Operating profit and operating margin

Operating profit increased by 35% to £1,096 million in the current year, primarily driven by litigation settlement income, strong growth in retail subscriptions and cost efficiencies in our operating expenditure. Operating margin (calculated as total revenue less all operating expense as a percentage of total revenue) for the current year was 19%, compared to 15% in the prior year.

Joint ventures and associates

Joint ventures are entities in which we hold a long-term interest and share control under a contractual arrangement with other parties. Our equity share of the net operating results from joint ventures and associates increased by £13 million to £32 million in the current year. This increase was primarily due to the growth of NGC Network International LLC and NGC Network Latin America LLC in which the Group has a 21% stake, and a £3 million receipt on the closure of a joint venture.

Investment income and finance costs

Investment income decreased by £32 million to £3 million in the current year. This was primarily due to lower interest rates received on cash deposits and lower cash balances following bond redemptions in July 2009.

Finance costs reduced by £98 million to £122 million in the current year, primarily due to lower average gross debt following bond redemptions in 2009 and interest saved due to lower interest rates on floating rate debt.

Finance costs included £13 million of non-cash fair value gains on derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness, an increase of £37 million on the prior year (2009: loss of £24 million).

Profit on disposal of available-for-sale investment and impairment of available-for-sale investment

On 17 November 2006, the Group acquired 696 million shares in ITV amounting to 17.9% of its issued share capital. The investment in ITV is carried at fair value. The fair value is determined with reference to its equity share price at the balance sheet date. An impairment in the carrying value was first recorded at 31 December 2007, due to the significant and prolonged decline in the equity share price. In accordance with IFRS, the Group has continued to review that carrying value and recognised a cumulative impairment loss of £807 million in fiscal 2008 and fiscal 2009. In line with IFRS, all subsequent increases in the fair value of the ITV investment above this impaired value have been recorded in the available-for-sale reserve. At 25 June 2010, the last trading day of the Group's financial year, ITV's closing equity share price was 53.5 pence.

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

Taxation

The total tax charge for the current year of £295 million (2009: £197 million) comprises a current tax charge of £282 million (2009: £201 million) and a deferred tax charge of £13 million (2009: credit of £4 million). The higher tax charge in the current year primarily results from increased profit, including the EDS receipt.

Profit for the year and earnings per share

Profit for the year was £878 million, compared to £259 million in the prior year. The increase in profit was primarily due to an increase in operating profit of £283 million, which included litigation settlement income from EDS, a profit of £115 million on the part disposal of our available-for-sale investment and a reduction in the impairment charge in respect of this investment of £191 million, partly offset by an increase in taxation of £98 million.

The Group's earnings per share are as follows:

	2010 pence	2009 pence
Earnings per share from profit for the year		
Basic	50.4	14.9
Diluted	50.1	14.8
Adjusted earnings per share from adjusted profit for the year		
Basic	31.1	25.9
Diluted	30.9	25.7

In order to provide a measure of underlying performance, management has chosen to present an adjusted profit for the year which excludes items that may distort comparability. See note 10 of the consolidated financial statements for a detailed reconciliation between profit and adjusted profit for the year.

Earnings per share increased from 14.9 pence in the prior year to 50.4 pence in the current year. This increase was primarily a result of litigation settlement income from EDS, a profit of £115 million on the part disposal of our available-for-sale investment and a reduction in the impairment charge in respect of this investment. Adjusted earnings per share increased as a result of a higher adjusted profit for the year.

Balance sheet

Property, plant and equipment and intangible assets increased by £91 million to £1,235 million at 30 June 2010, due to £455 million of additions in the year, offset by depreciation, amortisation and impairment of £362 million.

Investments in joint ventures and associates increased by £14 million to £149 million at 30 June 2010, primarily due to the revaluation of our interests in NGC Network International LLC and NGC Network Latin America LLC due to foreign exchange movements.

Available-for-sale investments decreased by £79 million to £182 million at 30 June 2010, primarily due to the partial disposal of the Group's investment in ITV, offset by the effect of the increase in the equity share price of ITV.

Non-current derivative financial assets have increased by £180 million to £382 million at 30 June 2010, due to mark-to-market movements on derivative instruments.

Current assets increased by £49 million to £1,986 million at 30 June 2010, predominantly due to a £148 million net increase in short-term deposits and cash and cash equivalents, offset by a £75 million decrease in trade and other receivables and a £43 million decrease in inventory. The net increase in short-term deposits and cash and cash equivalents is due to significant receipts on the settlement of litigation with EDS and the part disposal of the Group's investment in ITV and net cash generated from operating activities, offset by the repayment of the Group's current borrowings and payment of dividends. The decrease in trade and other receivables is primarily a decrease in programme prepayments due to the timing of upfront payments for multi-year rights packages and settlement of the VAT debtor by overseas VAT authorities. Inventories have decreased primarily as a result of holding lower volumes of physical inventory and the amortisation of programme rights in excess of additions.

Current liabilities decreased by £495 million to £1,699 million at 30 June 2010, predominantly due to the repayment in July 2009 of the Group's current borrowings, being the £100 million Guaranteed Notes and the remaining amounts payable for the US$650 million Guaranteed Notes.

Non-current liabilities increased by £106 million to £2,545 million at 30 June 2010, which is primarily due to an increase of £179 million in the fair value of the Group's non-current borrowings. The fair value of the US dollar-denominated loans has increased as pounds sterling have weakened against the dollar. This has been partially offset by a £65 million decrease in non-current derivative financial liabilities, due to mark-to-market movements on derivative instruments.

Movements in the balance sheet value of derivative financial instruments are taken to the income statement to offset movements in the underlying related hedged items, which also impact the income statement. Where the underlying hedged item is not yet recognised, movements in the balance sheet value of the derivative are taken to the hedging reserve, to the extent that hedge accounting is achieved. Movements in the balance sheet value of derivatives not qualifying for hedge accounting are taken to the income statement.

Foreign exchange

For details of the impact of foreign currency fluctuations on our financial position and performance, see note 24 to the consolidated financial statements.

Contingent liabilities

On 7 May 2008, the Nomenclature Committee of the European Commission issued an Explanatory Note "EN" (0590/2007) to the Combined Nomenclature setting out their view that set-top boxes with a hard drive should be classified under Customs Tariff heading 8521 90 00 and so subject to a 13.9% ad valorem duty on importation to the EU. As a consequence the Group is exposed to potential retrospective Customs Duty liability in respect of such set-top boxes imported by Amstrad (acquired in September 2007) and for the reimbursement of certain suppliers in line with the terms of contractual supply agreements.

Management's opinion is that the retrospective application of the Explanatory Note would be wrong as a matter of law. In addition, management considers that the adoption of the EN puts the EU in breach of the Information Technology Agreement of 1996, a view which is shared by the US, Japan, Singapore and Taiwan, who have instigated WTO proceedings against the EU on this matter. The Group therefore is, in common with other affected importers, defending its position on this matter and consequently has lodged an appeal to the VAT & Duties Tribunal regarding classification of these products.

This matter has been referred by the Tribunal to the European Court of Justice. The Group has also lodged an appeal with HMRC against the assessment for retrospective duty.

As a result of the potential remedies available under the Community Customs Code, the Group considers that it is probable that no outflow of economic benefit would be required to discharge this obligation, and that as such at 30 June 2010 any liability should be considered contingent.

Financial and operating review
continued

Liquidity and capital resources
An analysis of the movement in our net debt (including related fees) is as follows:

	As at 1 July 2009 £m	Cash move-ments £m	Non-cash move-ments £m	As at 30 June 2010 £m
Current borrowings	465	(465)	–	–
Non-current borrowings	2,279	(12)	191	2,458
Debt	**2,744**	**(477)**	**191**	**2,458**
Borrowings-related derivative financial instruments	(107)	(17)	(209)	(333)
Cash and cash equivalents	(811)	162	–	(649)
Short-term deposits	(90)	(310)	–	(400)
Net debt	**1,736**	**(642)**	**(18)**	**1,076**

The Group refers to net debt in discussing its indebtedness and liquidity position. Net debt is a non-GAAP measure that management uses to provide an assessment of the overall indebtedness of the Group. The most similar IFRS GAAP measures are current and non-current borrowings.

Management uses net debt to calculate and track adherence to the Group's borrowing covenants, as disclosed in note 22 to the consolidated financial statements. Management monitors the Group's net debt position because net debt is a commonly used measure in the investment analyst community and net debt is a key metric used by Moody's and Standard & Poor's in their assessment of the Group's credit rating. As such, management makes decisions about the appropriate investing and borrowing activities of the Group by reference to, amongst other things, net debt.

Our long-term funding comes primarily from our issued equity and US dollar and sterling-denominated debt. For details of the Group's facilities, long-term funding, indebtedness position and the terms of material debt arrangements, including compliance with borrowing covenants, see note 22 of the consolidated financial statements. For details of the Group's treasury activities, see note 24 of the consolidated financial statements.

Our principal source of liquidity is cash generated from operations, combined with access to a £750 million committed RCF, which expires in July 2013. At 30 June 2010, this facility was undrawn (30 June 2009: undrawn).

Cash flows
During the current year, cash generated from operations was £1,634 million, compared with an inflow of £1,205 million in the prior year. This increase was due to an increase in operating profit of £283 million, which included litigation settlement income from EDS and working capital savings. Net cash generated from operating activities was further impacted by an increase in taxation paid, offset by an increase in interest received.

During the current year, the Group disposed of part of its available-for-sale investment in ITV for consideration of £196 million and payments for property, plant and equipment and intangible assets were £444 million, compared with £400 million in the prior year. A total of £118 million was invested in the broadband and telephony infrastructure, £57 million was invested in the purchase of the freehold land and buildings adjacent to the Group's Osterley site, which is currently being let back to the existing occupant on a short-term basis and £48 million was invested to progress the Group's property and infrastructure projects. We also made payments totalling £17 million in the year to a related party for development of encryption technology, which have been capitalised as an intangible asset. The remaining £204 million was spent on a number of projects including information systems infrastructure, broadcast equipment and the development of new products and services.

Guaranteed Notes totalling $617 million and £100 million were redeemed during the year. The sterling equivalent, including cash-flows on related hedges, was a net cash outflow of £495 million. In the prior year, the Group issued Guaranteed Notes consisting of US$600 million and redeemed $50 million of the US$650 million Guaranteed Notes repayable in July 2009, US$600 million of Guaranteed Notes repayable in February 2009 and £35 million of Loan Notes, which resulted in a net cash outflow of £36 million. The Group did not receive any proceeds from a draw-down of the RCF in either the current year or the prior year.

During the current year, interest payments were £156 million, compared to £217 million in the prior year, primarily due to lower interest rates.

During the current year, equity dividend payments were £314 million, compared to £298 million in the prior year.

The total cash movements of £642 million, in addition to non-cash movements of £18 million resulted in a decrease in net debt of £660 million to £1,076 million.

Trends and other information
The significant trends and factors which have a material effect on our financial performance are outlined below.

The number of DTH homes increased by 418,000 in the current year to 9,860,000, compared to growth of 462,000 in the prior year. We expect growth in customer numbers to continue as a result of the implementation of our current marketing strategy, with the aim of achieving our target of 10 million DTH customers in calendar 2010. Sky+HD customers increased substantially in the current year – by 124% – representing a penetration of total DTH customers of 30% and we expect penetration to continue to increase.

DTH churn for the current year was 10.3%, compared to 10.3% in the prior year. Over the medium term we expect our DTH churn to remain broadly at this level.

The number of Sky Broadband customers increased by 421,000 to 2,624,000. We expect continued growth in the number of retail broadband connections activated in future years. The number of Sky Talk customers increased by 517,000 in the current year to 2,367,000 and the number of Line Rental customers increased by 769,000 to 1,686,000. We expect growth in Sky Talk and Line Rental customers to continue. The increased number of customers to our Sky+HD, Sky Broadband and Sky Talk products is expected to generate increased retail revenue on a per customer basis.

During the current year, the number of cable homes receiving Sky Channels in the UK and Ireland increased by 41,000 to 4,312,000. The wholesale supply of certain of the Sky Sports channels is currently subject to must-offer obligations, following the outcome of Ofcom's pay TV industry investigation and an interim Order of the Competition Appeal Tribunal. The Group is currently appealing these must-offer obligations (for further details see "Directors' report – Business review – Review of the business"). Our wholesale subscribers are also to some extent dependent on the strategies of the relevant wholesale companies, generally and as they relate to the distribution of our Channels (for further details see "Directors' report – Business review – Principal risks and uncertainties").

Advertising revenue increased by 4% in the current year. The UK television advertising sector is expected to remain challenging in the short term reflecting the continued wider economic uncertainty and the ongoing growth of digital media.

The Group's programming costs have increased in the current year. In the short term, we expect that programming costs will continue to increase as a result of contracts secured during the current and prior year. In the medium term, the Group expects programming costs to increase in line with the increase in revenues.

Direct network costs increased during the current year, and are expected to continue to increase in future years at a higher rate than the growth in customers, resulting in an increased average cost per customer. This expected increase reflects the cost of operating our Sky Talk service, and the growth of broadband services.

Marketing costs increased in the year due to our investment in accelerating Sky+HD growth. Subscriber management and supply chain costs decreased during the current year as the costs associated with our larger subscriber base were offset by reduced set-top box costs as we in-sourced a greater proportion of boxes and achieved cost efficiencies throughout the supply chain. The level of growth in both the total number of customers and the number of additional services taken by our customers (for example Sky+HD) will remain key drivers of these costs in future as will our ability to deliver rate efficiency improvements across our contact centre and supply chain operations.

Excluding legal costs in relation to EDS and costs associated with restructuring activity, administration costs in the current year were broadly in line with the prior year, as a result of our focus on managing our central costs. Going forward, our aim is to hold the rate of growth in administration costs below that of revenue growth.

The Board of Directors is proposing a final dividend of 11.525 pence per share, which, combined with the interim dividend of 7.875 pence per share, will result in total dividend growth of 10% on the prior year total dividend.

Off-balance sheet arrangements

At 30 June 2010, the Group did not have any undisclosed off-balance sheet arrangements that require disclosure as defined under the applicable rules of IFRS.

Related party transactions

The Group conducts all business transactions with companies which are part of the News Corporation group ("News Corporation"), a major shareholder, on an arm's length basis. During the current year, the Group made purchases of goods and services from News Corporation totalling £197 million (2009: £212 million) and supplied services to News Corporation totalling £32 million (2009: £40 million).

During the current year, the Group made purchases of goods and services from joint ventures and associates totalling £55 million (2009: £51 million) and supplied services to joint ventures and associates totalling £13 million (2009: £15 million).

On 15 June 2010, News Corporation announced a proposal relating to a possible offer for the entire share capital of the Company not already owned by News Corporation.

For further details of transactions with related parties, see note 30 of the consolidated financial statements.

Events after the reporting period

On 4 June 2010, the Group signed an agreement to purchase 100% of the shares of Virgin Media Television Limited, Virgin Media Television Rights Limited, and the assets and liabilities of the Virgin Media television channels ("VMtv"). This agreement was conditional on obtaining merger control clearance in the Republic of Ireland. On 12 July 2010, the conditions to completion were fulfilled and the Group completed the acquisition of VMtv. VMtv operates a portfolio of television channels including Living, Bravo, Virgin1 and Challenge which are distributed over various television platforms and generate revenue principally from the sale of advertising airtime and carriage fees paid by Pay-TV operators such as Virgin Media and Sky. VMtv was acquired to complement the Group's existing content business and to deliver strategic and financial benefits.

Total consideration comprises £160 million of cash, with £105 million having been paid immediately upon completion. The outstanding contingent consideration of £55 million is payable upon receipt of UK regulatory clearance for the transaction. The Group notified the transaction to the OFT on 9 July 2010. The OFT has started its review of the transaction and issued its invitation to third parties to comment on the transaction on 20 July 2010.

On 21 July 2010 the Group announced that it had reached an agreement over the sale of its business-to-business telecommunications operation, Easynet, to Lloyds TSB Development Capital ("LDC"). LDC will pay the Group £100 million for the business on completion of the transaction, subject to regulatory approval. The Group will retain the UK network assets that it acquired as part of the original acquisition of Easynet Group in 2005. As part of the sale, the Group and LDC will enter into a long-term supply agreement to grant Easynet continued access to the Group's fibre network and Easynet will also continue to be a key supplier to the Group.

For further details of events after the reporting period, see note 32 to the consolidated financial statements.

Board of Directors

James Murdoch (age 37)

Non-Executive Director and Chairman

James Murdoch was appointed as a Director of the Company on 13 February 2003 and Chairman on 7 December 2007. Between November 2003 and December 2007 he was Chief Executive Officer (CEO) of the Company, a role he relinquished on his appointment as Non-Executive Chairman. Mr Murdoch is Chairman and CEO, Europe and Asia, at News Corporation and is a member of News Corporation's Board of Directors and Executive Committee. Between May 2000 and November 2003, he was Chairman and CEO of Star Group Limited. Mr Murdoch was appointed a Non-Executive Director of GlaxoSmithKline plc in May 2009 and as a Non-Executive Director of Sotheby's in May 2010.

Nicholas Ferguson (age 61)

Deputy Chairman and Senior Independent Non-Executive Director Remuneration Committee Chairman

Nicholas Ferguson was appointed as a Director of the Company on 15 June 2004, Senior Independent Non-Executive Director on 12 June 2007 and Deputy Chairman on 16 June 2010. Mr Ferguson is Chairman of SVG Capital plc, a publicly-quoted private equity group, and was formerly Chairman of Schroder Ventures. He is also Chairman of the Courtauld Institute of Art and the Institute of Philanthropy.

Jeremy Darroch (age 48)

Executive Director and Chief Executive Officer

Jeremy Darroch was appointed as a Director of the Company on 16 August 2004. He was appointed CEO on 7 December 2007, having previously been Chief Financial Officer (CFO) since 2004. Prior to joining the Company, Mr Darroch was Group Finance Director of DSG International plc (DSG), formerly Dixons Group plc. Prior to DSG, Mr Darroch spent 12 years at Procter & Gamble in a variety of roles in the UK and Europe. Mr Darroch is a Non-Executive Director and the Chairman of the Audit Committee of Marks & Spencer plc. He is also a Board Member of the charity Youth Sport Trust and a Council Member of the Council for Industry and Higher Education.

David F. DeVoe (age 63)

Non-Executive Director

David F. DeVoe was appointed as a Director of the Company on 15 December 1994. Mr DeVoe has been a Director of News Corporation and its CFO since October 1990. Mr DeVoe has served as Senior Executive Vice President of News Corporation since January 1996. Mr DeVoe has been a Director of NDS Group Limited since October 1996.

David Evans (age 70)

Independent Non-Executive Director

David Evans was appointed as a Director of the Company on 21 September 2001. Mr Evans was President and CEO of Crown Media Holdings, Inc. and its predecessor company, Hallmark Entertainment Networks, from March 1999 to October 2007. Prior to that, Mr Evans was President and CEO of Tele-Communications International, Inc. (TINTA) from January 1998. Prior to joining TINTA, from July 1996, Mr Evans held various senior roles at News Corporation. He is currently a Director of Village Roadshow Ltd, Village Roadshow Entertainment Group and Concord Music.

Andrew Griffith (age 39)

Executive Director and Chief Financial Officer

Andrew Griffith was appointed as CFO and a Director of the Company on 7 April 2008. Mr Griffith joined Sky in October 1999 and held a number of finance roles prior to his appointment as CFO. Mr Griffith previously worked at the investment bank Rothschild, where he advised a range of clients in the technology, media and telecommunications sectors. Mr Griffith is a member of the 100 Group of Finance Directors.

Andrew Higginson (age 53)

Independent Non-Executive Director Audit Committee Chairman

Andrew Higginson was appointed as a Director of the Company on 1 September 2004. Mr Higginson is Chief Executive of Retailing Services and Group Strategy Director of Tesco plc (Tesco). Mr Higginson was appointed to the Board of Tesco in 1997, having previously been the Group Finance Director of the Burton Group plc.

Allan Leighton (age 57)

Independent Non-Executive Director

Allan Leighton was appointed as a Director of the Company on 15 October 1999. Mr Leighton joined ASDA Stores Limited as Group Marketing Director in March 1992 and was appointed CEO in September 1996. In November 1999 he was appointed President and CEO of Wal-Mart Europe. Mr Leighton resigned from all of these positions in September 2000. Mr Leighton is currently Deputy Chairman of Selfridges & Co. Limited, George Weston Limited and Loblaws Companies Limited. Mr Leighton was a Director of Bhs Limited until January 2008 and was Chairman of The Royal Mail Group until March 2009.

Thomas Mockridge (age 55)
Non-Executive Director
Thomas Mockridge was appointed as a Director of the Company on 10 February 2009. Mr Mockridge is the CEO of Sky Italia and Chief Executive, European Television of News Corporation where he oversees News Corporation's television operations in Europe, outside the UK. Prior to joining Sky Italia, Mr Mockridge held various roles at Star Group Limited and was previously CEO of Foxtel, News Corporation's Pay-TV joint venture with Telstra.

Jacques Nasser (age 62) ◎
Independent Non-Executive Director
Jacques Nasser was appointed as a Director of the Company on 8 November 2002. Mr Nasser served as a Member of the Board of Directors, and as President and CEO of Ford Motor Company from 1998 to 2001. Mr Nasser is the Chairman of BHP Billiton, and a Partner of One Equity Partners. He also serves on the International Advisory Board of Allianz A.G. Until January 2008, Mr Nasser served on the Board of Brambles Limited and Quintiles Transnational Corporation.

Dame Gail Rebuck (age 58) ○ ●
Independent Non-Executive Director
The Bigger Picture Committee Chairman
Dame Gail Rebuck was appointed as a Director of the Company on 8 November 2002. Dame Gail is Chairman and CEO of The Random House Group Limited (Random House), one of the UK's leading trade publishing companies. Dame Gail is a Director of Skillset, a Trustee of the National Literacy Trust, and sits on the Council of the Royal College of Art. Dame Gail was awarded a CBE in the 2000 New Year's Honours List and was made a Dame in the 2009 Queen's Birthday Honours List. Dame Gail was also named 2009 Veuve Clicquot Business Woman of the Year.

Daniel Rimer (age 39) ◎
Independent Non-Executive Director
Daniel Rimer was appointed as a Director of the Company on 7 April 2008. Mr Rimer is a General Partner of the venture capital firm Index Ventures Management Limited (Index Ventures) and established the firm's London office. He currently serves on a number of boards including RightScale Inc., Oanda Corporation, FON Wireless Limited, Stardoll Inc. and Viagogo Limited. Prior to joining Index Ventures, Mr Rimer was a General Partner of The Barksdale Group and, previously, Managing Director of Hambrecht & Quist's (now JP Morgan) Equity Research Group.

Arthur Siskind (age 71) ◉
Non-Executive Director
Arthur Siskind was appointed as a Director of the Company on 19 November 1991. Mr Siskind has been the Senior Advisor to the Chairman of News Corporation since January 2005. Mr Siskind has been an Executive Director of News Corporation since 1991 and was Group General Counsel of News Corporation from March 1991 until December 2004. Mr Siskind has been a member of the Bar of the State of New York since 1962.

Lord Wilson of Dinton (age 67) ◉ ●
Independent Non-Executive Director
Corporate Governance and Nominations Committee Chairman
Lord Wilson of Dinton was appointed as a Director of the Company on 13 February 2003. Lord Wilson was appointed Secretary to the Cabinet and Head of the Home Civil Service in January 1998. Lord Wilson retired from the Civil Service in 2002 after serving 36 years in a number of UK Government departments. Since his retirement in September 2002, Lord Wilson has been Master of Emmanuel College, Cambridge. In October 2006, he became Non-Executive Chairman of C. Hoare and Co, Bankers. From April 2003 until October 2007, Lord Wilson was a Non-Executive Director of Xansa plc. Lord Wilson was made a peer in November 2002.

Alternate Directors

A Director may appoint any other Director or any other person to act as his Alternate. An Alternate Director shall be entitled to receive notice of and attend meetings of the Directors and committees of Directors of which his appointer is a member and not able to attend. The Alternate Director shall be entitled to vote at such meetings and generally perform all the functions of his appointer as a Director in his absence.

On the resignation of the appointer for any reason the Alternate Director shall cease to be an Alternate Director. The appointer may also remove his Alternate Director by notice to the Company Secretary signed by the appointer making or revoking the appointment. An Alternate Director shall not be entitled to fees for his service as an Alternate Director.

James Murdoch, David DeVoe, Arthur Siskind and Thomas Mockridge have appointed each of the others to act as their Alternate Director. David Evans has appointed Allan Leighton as his Alternate Director.

Committee Membership

- ○ Audit Committee
- ◎ Remuneration Committee
- ◉ Corporate Governance and Nominations Committee
- ● The Bigger Picture Committee

Corporate governance report

The Company is committed to maintaining high standards of corporate governance in its management of the Group and when accounting to shareholders. The management of the Company values an effective long-term outlook and sees itself as responsible to the wider range of stakeholders, whilst being accountable for the pursuit of its objectives for the benefit of the Company's members as a whole.

The Combined Code on Corporate Governance 2008 ("Combined Code") sets out the standards of good practice in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice. The Financial Services Authority requires listed companies to disclose, in relation to section 1 of the Combined Code, how they have applied its main principles and whether they have complied with its provisions throughout the financial year.

The Board considers that throughout the year ended 30 June 2010, and as at the date of this Annual Report, the Company was compliant with the provisions of section 1 of the Combined Code. This section of the Annual Report along with the report on Directors' remuneration on pages 46 to 54 and other governance and statutory disclosures on pages 43 to 45 provide details of how the Company has applied the main principles during the year ended 30 June 2010. Further information on the Combined Code is publicly available on the Financial Reporting Council's website www.frc.org.uk.

The Board

The Board currently comprises fourteen Directors, made up of two Executive Directors and twelve Non-Executive Directors. A majority of eight Non-Executive Directors are determined to be independent in compliance with the Combined Code. They bring a wide range of experience and expertise to the Group's affairs, and carry significant weight in the Board's decisions. The Independent Non-Executive Directors provide a strong independent element and a foundation for good corporate governance. Biographies of each of the Directors are set out on pages 34 to 35 and identify those Directors who are, in the view of the Board, independent within the meaning of the Combined Code. Prior to appointment, and on an annual basis, each board member receives and completes a questionnaire to determine factors that may affect independence according to the Combined Code. The responses to the questionnaire assist the Board in ascertaining whether a director is independent in character and judgment, and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgment.

The Company recognises that all Directors are equally and collectively accountable under the law for the proper stewardship of the Company's affairs. The Company maintains a directors' and officers' liability insurance policy which meets defence costs when the Director is not proved to have acted fraudulently.

Executive Directors are not allowed to take on the chairmanship of a FTSE 100 company, but are allowed to take up one external non-executive FTSE 100 appointment and retain any payments in respect of such appointments.

The roles of the Chairman and CEO are separate and have been so since the Company's shares were admitted to listing in 1994.

The full schedule of matters reserved for decision making by the Board, can be found on the Company's corporate website at www.sky.com/corporate.

The Chairman

The Chairman is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. This includes ensuring, via the Company Secretary, that the Directors receive accurate, timely and clear information. The duties of the Chairman include the following:

- to encourage and ensure effective communication with shareholders, and ensure shareholder views are communicated to the Board as a whole;
- to facilitate a structure to allow the effective contribution of all Directors, and of Non-Executive Directors in particular;
- to create an environment which engenders constructive relations between Executive and Non-Executive Directors;
- to organise the business of the Board so that it can be carried out effectively and efficiently;
- to lead the Board in discussions regarding the Company's strategy and in the achievement of its objectives;
- to ensure Board committees are properly established, composed and operated; and
- to enhance the Company's public standing and image overall.

Deputy Chairman and Senior Independent Director

The Board has appointed one Non-Executive Director, Nicholas Ferguson, to act as Senior Independent Director. The Senior Independent Director meets with institutional shareholders and representative bodies throughout the year and is available to assist shareholders in resolving concerns should alternative channels be inappropriate. Nicholas Ferguson, the Senior Independent Director, was also appointed Deputy Chairman of the Board with effect from 16 June 2010.

The Chief Executive Officer

The CEO is responsible for the daily operation of the Company, advancing long-term shareholder value, supported by the management team. He is accountable and responsible to the Board for the management and operation of the Company. He is also involved in the management of the social and environmental responsibilities of the Company. The duties of the CEO include the following:

- to be responsible and accountable to the Board for the management and operation of the Group;
- to prepare and implement plans and programmes for the attainment of approved objectives and to recommend such plans and programmes to the Board as appropriate;
- to provide leadership in the Group's commitment to attaining high business standards generally;
- to create the conditions within the Group for the efficient operation of all business units;
- to establish and maintain relationships with shareholders and potential shareholders, and major external bodies;
- to keep the Board informed on all matters of material importance; and
- to chair meetings of the Executive Committee.

Non-Executive Directors

The dates on which the Non-Executive Directors' initial service agreements/letters of appointment commenced and current expiry dates are as follows:

	Commencement date	Expiry date of current letter of appointment
David DeVoe(ii)	15 December 1994	22 October 2010
David Evans(ii)	21 September 2001	22 October 2010
Nicholas Ferguson	15 June 2004	October 2012*
Andrew Higginson	1 September 2004	October 2012*
Allan Leighton(ii)	15 October 1999	22 October 2010
Thomas Mockridge	10 February 2009	October 2012*
James Murdoch(i)	7 December 2007	22 October 2010
Jacques Nasser	8 November 2002	October 2012*
Dame Gail Rebuck	8 November 2002	October 2012*
Daniel Rimer(i)	7 April 2008	22 October 2010
Arthur Siskind(ii)	19 November 1991	22 October 2010
Lord Wilson of Dinton	13 February 2003	October 2011*

* *These letters of appointment will expire on the day of the Company's AGM in either 2011 or 2012. The date of the 2011 and 2012 AGMs are yet to be agreed.*

Non-Executive Directors serve for an initial term of three years, subject to reappointment by shareholders following appointment, subsequent reappointment by shareholders, and Companies Act provisions relating to the removal of Directors. In addition, reappointment for a further term is not automatic, but may be mutually agreed. The Company's articles of association require that one third of the Board retires by rotation each year and stands for reappointment by shareholders.

Notes:

(i) *Non-Executive Directors retiring by rotation and offering themselves for reappointment by shareholders at the Company's next AGM to be held on 22 October 2010.*

(ii) *David DeVoe, Allan Leighton and Arthur Siskind are subject to annual reappointment by shareholders in accordance with requirement A.7.2 of the Combined Code as they have served as Non-Executive Directors for longer than nine years. David Evans will have served as a Non-Executive Director for nine years in September 2010, and will therefore be subject to annual reappointment from the Company's forthcoming AGM to be held on 22 October 2010.*

Non-Executive Directors' letters of appointment do not contain a notice period. The letters of appointment are available for inspection at the Company's registered office address during normal business hours.

The Company Secretary

The Company Secretary is available to advise all Directors and is responsible for ensuring the Board is supplied with all necessary information in a reliable, timely manner. The Company Secretary ensures good communication between the Board, Board committees and senior management. He facilitates Directors' induction and training.

News Corporation proposal

Following an approach by News Corporation on 10 June 2010 relating to a possible offer for the entire issued share capital of the Company that it does not already own, the Board passed a resolution to appoint a committee comprising the Independent Directors and the Executive Directors (the "Offer Committee") with authority to exercise all powers of the Board in relation to a possible offer and any matters relevant to the News Corporation proposal (the "Proposal"). The Offer Committee is chaired by Nicholas Ferguson.

These Directors, who constitute a majority of the Board, intend to exercise their rights and powers to manage the governance of the Board during this period in the best interests of all shareholders. This includes taking such steps within their power as they consider appropriate to regulate the attendance of Directors connected with News Corporation at meetings of the Board (or any committee of the Board) and receipt of information relating to the Company by those Directors that are deemed relevant to the Proposal. These arrangements will continue for the duration of the Proposal or until the successful completion of any transaction contemplated by the Proposal (the "Offer Period"). The Offer Committee met on six occasions between 10 June and 15 June 2010.

Board Practices

The Board met five times during the year to review appropriate strategic, operational and financial matters. Attendance of the current Directors at Board meetings and committee members at meetings of the committees on which they served during the year is set out in the table below:

	Board	Audit	Remuneration	Corporate Governance and Nominations	The Bigger Picture
Number of meetings held in year	5	4	4	1	2
Director					
James Murdoch, Chairman(iv)(v)	5	–	–	–	1
Jeremy Darroch, CEO	5	–	–	–	–
Andrew Griffith, CFO	5	–	–	–	–
David DeVoe	5	–	–	–	–
David Evans(i)(vi)	5	–	3	–	–
Nicholas Ferguson(i)(ii)	5	–	4	1	–
Andrew Higginson(iii)(vii)	4	3	–	–	–
Allan Leighton(iii)	5	4	–	–	–
Thomas Mockridge	5	–	–	–	–
Jacques Nasser(i)(viii)	4	–	3	–	–
Dame Gail Rebuck(iii)(iv)	5	4	–	–	2
Daniel Rimer(i)	5	–	2	–	–
Arthur Siskind(ii)	5	–	–	1	–
Lord Wilson of Dinton(ii)(iv)	5	–	–	1	2

Notes:

(i) *Remuneration Committee member.*

(ii) *Corporate Governance and Nominations Committee member.*

(iii) *Audit Committee member.*

(iv) *The Bigger Picture Committee member.*

(v) *James Murdoch was unable to attend a meeting of The Bigger Picture Committee due to a prior News Corporation business engagement.*

(vi) *David Evans was unable to attend a Remuneration Committee meeting due to the volcanic ash disruption.*

(vii) *Andrew Higginson was unable to attend a Board meeting and an Audit Committee meeting due to a family bereavement.*

(viii) *Jacques Nasser was unable to attend a Board meeting and a Remuneration Committee meeting due to a meeting of the BHP Billiton Board, of which he is Chairman.*

In accordance with best practice, the independent Non-Executive Directors of the Board held separate meetings during the year.

Board role

A schedule of matters reserved for the full Board's determination and/or approval is in place, which includes:

- approval of the annual budget and any changes to it;

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- a major change in the nature, scope or scale of the business of the Group;
- approval of the interim and final results;
- approval of any dividend policy;
- changes relating to the Group's capital structure, including reductions of capital and share buy-backs;
- the entering into by the Group of a commitment or arrangement (or any series of related commitments or arrangements) which, whether budgeted or unbudgeted, involves or could reasonably involve, the payment or receipt by the Group of amounts equal to or in excess of £100 million in aggregate value;
- the entering into by the Group of a commitment or arrangement (or any series of related commitments or arrangements) with News Corporation, any of its subsidiaries, or a related party which involves, or could reasonably involve, the payment or receipt by the Group of amounts equal to or in excess of £25 million in aggregate value;
- approval of resolutions to be put forward to shareholders at a general meeting;
- changes to the structure, size and composition of the Board, following, if applicable, recommendations from any committee to which the Board delegates consideration of such issues;
- appointment and removal of the Chairman of the Board and the CEO; and
- determining the independence of Non-Executive Directors.

The Board has also delegated specific responsibilities to Board committees, notably the Audit, Remuneration, Corporate Governance and Nominations and The Bigger Picture committees, as set out below. Directors receive Board and committee papers several days in advance of Board and committee meetings. In addition, the Board members have access to external professional advice at the Company's expense.

A committee of senior management generally meets on a weekly basis to allow prompt discussion of relevant business issues. It is chaired by the CEO and comprises the CFO and other Senior Executives from within the Group.

Following appointment to the Board, all new Directors receive an induction tailored to their individual requirements. The induction process involves meeting with all of the Company's Executive Directors and Senior Executives. This facilitates their understanding of the Group and the key drivers of the business' performance. The Directors are also provided with copies of the Company's corporate governance practices and procedures.

Directors regularly receive additional information from the Company between Board meetings, including a monthly report updating the Directors on the performance of the Group. Where appropriate additional training and updates on particular issues are arranged.

All of the Directors are required to retire and offer themselves for reappointment at least once in every three years. Non-Executive Directors who have served for more than nine years on the Board are subject to annual reappointment in accordance with the Combined Code.

During the year, the Directors carried out a full evaluation of the performance of the Board, its committees and individual Directors. The evaluation consists of each Director meeting individually with the Chairman of the Corporate Governance and Nominations Committee. The evaluation confirmed that the Board was satisfied with the Board's overall performance. The Non-Executive Directors also meet separately without the Chairman and Executive Directors present to evaluate the performance of the Chairman.

Following this year's review, the Corporate Governance and Nominations Committee and Board have confirmed that all Directors standing for reappointment at the forthcoming AGM continue to perform effectively and demonstrate commitment to their roles.

Jeremy Darroch, Andrew Griffith, James Murdoch and Daniel Rimer retire from the Board by rotation, and being eligible, offer themselves for reappointment at the Company's AGM on 22 October 2010. David DeVoe, Allan Leighton and Arthur Siskind are subject to annual reappointment in accordance with requirement A.7.2 of the Combined Code, as they have served as Non-Executive Directors for longer than nine years. David Evans will have served as a Non-Executive Director for nine years in September 2010 and will therefore be subject to annual reappointment from the Company's 2010 AGM.

Board Committees

Terms of reference for the governance of the Board committees can be found on the Company's corporate website.

Remuneration Committee

The members of the Remuneration Committee are Nicholas Ferguson (Chairman), David Evans, Jacques Nasser and Daniel Rimer, all of whom are Independent Non-Executive Directors, in compliance with the Combined Code. Daniel Rimer was appointed as a member of the committee by the Board on 27 January 2010.

The Remuneration Committee has clearly defined terms of reference, meets at least twice a year, and takes advice from the CEO and independent consultants as appropriate in carrying out its work. Following publication of the annual report, meetings and round-table discussions are arranged between the Remuneration Committee and institutional shareholders to discuss remuneration policy and aspects of the Committee's report on Directors' remuneration. The Remuneration Committee Chairman reports regularly to the Board on its activities.

James Murdoch and David DeVoe have a standing invitation to attend meetings of the Remuneration Committee. Their attendance at these meetings is as observers only and in a non-voting capacity.

The report on Directors' remuneration can be found on pages 46 to 54. The report on Directors' remuneration will be put forward for an advisory shareholder vote at the 2010 AGM.

Corporate Governance and Nominations Committee

The Corporate Governance and Nominations Committee is chaired by Lord Wilson of Dinton and its other members are Nicholas Ferguson and Arthur Siskind. The majority of the members of the committee are Independent Non-Executive Directors in compliance with the Combined Code. The Chairman reports regularly to the Board on its activities. Its main duties include:

- the identification and nomination, for approval by the Board, of candidates to fill Board vacancies as they arise;
- the drafting of requirements for a particular appointment to the Board, taking into consideration the present balance of skills, knowledge and experience on the Board;
- the regular review of the structure, size and composition of the Board and to recommend any changes to the Board or succession planning;
- the provision of a formal letter of appointment, setting out clearly what is expected of new appointees to the Board, in terms of time commitment, term of office and committee service as well as their duties and liabilities as a Director, including details of the Company's corporate governance policies and directors' and officers' liability insurance cover; and
- the monitoring of the Company's compliance with applicable Corporate Governance Codes and other similar requirements.

The Corporate Governance and Nominations Committee led the evaluation of the Board that was completed during the year as discussed earlier in this report.

The Committee assists the Board by keeping the composition of the Board under review. The Committee also keeps under review the Board's balance of skills, knowledge, experience and length of service. Following the Proposal from News Corporation the Committee has decided that a period of stability is required and that the current Independent Non-Executive Directors have the appropriate balance of skills, knowledge and experience required to manage the Board through the Offer Period in the best interests of all shareholders.

The Committee also reviewed the independence of the Non-Executive Directors and recommended to the Board that there be no changes to the independent status of the current Non-Executive Directors. The Non-Executive Directors who are considered by the Board to be independent are clearly identified on pages 34 to 35. The Board's criteria for determining whether a Non-Executive Director is independent are set out in the Memorandum on Corporate Governance which can be found on the Company's corporate website. The Committee's review took into consideration the fact that Allan Leighton had served on the Board for nine years in October 2008 and David Evans will have served on the Board for nine years in September 2010. Provision A.3.1 of the Combined Code suggests that serving more than nine years could be relevant to the determination of a Non-Executive Director's independence. The Committee concluded that Mr Leighton and Mr Evans continued to demonstrate the essential characteristics of independence expected by the Board and that there are no relationships or circumstances that are likely to affect, or could appear to affect, their judgment. In accordance with requirement A.7.2. of the Combined Code, Mr Leighton and Mr Evans will be subject to annual reappointment at the Company's AGM in 2010.

The Bigger Picture Committee

On 16 June 2009, the Board established The Bigger Picture Committee as a Committee of the Board. The Bigger Picture Committee (the "Committee") manages the Company's corporate responsibility and community engagement programme which the Company has named "The Bigger Picture".

The Committee is chaired by Dame Gail Rebuck, and its other members include Lord Wilson of Dinton and James Murdoch. The Committee replaced the Bigger Picture Steering Group and met twice during the financial year. The Chairman of the Committee reports regularly to the Board on its activities. The main duties of the Committee include:

- reviewing and approving the Bigger Picture strategy;
- reviewing the reputational risk register and assigning clear roles and responsibilities for ensuring effective mitigation of identified risks;
- seeking external stakeholders' views on the Bigger Picture strategy and performance;
- reviewing and approving the annual reporting of Bigger Picture activities;
- monitoring progress in achieving Bigger Picture objectives and key performance indicators;
- ensuring the resources and skills are available to implement the Bigger Picture strategy; and
- providing the Board with an overview of the social, environmental and ethical impacts of the Company's activities and how they are being managed.

An overview of the Company's corporate responsibility policies, activities and Bigger Picture approach is provided on pages 18 to 21 of the "Directors' report – Business review – Corporate responsibility".

Audit Committee

The Audit Committee (the "Committee"), which consists exclusively of Independent Non-Executive Directors in compliance with the Combined Code, has clearly defined terms of reference as laid down by the Board. The composition of the Committee is currently Allan Leighton, Dame Gail Rebuck and Andrew Higginson. Allan Leighton resigned as Chairman and Andrew Higginson assumed the role with effect from 29 July 2009. Allan Leighton remains a member of the Committee and there have been no other changes to the composition of the Committee during the year. The CFO and representatives from the external auditor and the internal audit department attend meetings at the request of the Committee. The CEO and other business and finance executives attend meetings from time to time. The Committee Chairman reports regularly to the Board on its activities.

David DeVoe and Arthur Siskind have a standing invitation to attend meetings of the Committee. Their attendance at these meetings is as observers only and in a non-voting capacity. The Committee's duties include:

- making recommendations to the Board in relation to the appointment, reappointment and removal of the external auditors and discussing with the external auditors the nature, scope and fees for the external auditors' work;

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- reviewing and making recommendations to the Board regarding the approval, or any amendment to, the quarterly, half year and annual financial statements of the Group;
- reviewing the Group's significant accounting policies;
- reviewing the Group's systems of internal control;
- reviewing the Group's treasury policies;
- recommending the appointment of the Group's Director of Internal Audit;
- reviewing the audit plan and findings of the Group's internal audit function;
- monitoring and reviewing the effectiveness of the Group's internal audit function;
- approving all non-audit services provided by the Group's external auditors in accordance with the Group's policy;
- monitoring the Group's whistle-blowing policy;
- News UK Nominees Limited, a subsidiary of News Corporation, is a major shareholder in the Group. The Audit Committee receives, on a quarterly basis, a schedule of all transactions between companies within the News Corporation Group and the Group, and any other related party transactions, showing all transactions which have been entered into during the year and which cumulatively exceed £100,000 in value;
- Committee approval is required for the entering into by the Group of a commitment or arrangement (or any series of related commitments or arrangements) with News Corporation or any of its subsidiaries, or any other related party which involves or could reasonably involve the payment or receipt by the Group of amounts equal to or in excess of £10 million, but not exceeding £25 million in aggregate value with News Corporation. Any transaction in excess of £25 million in aggregate value must be submitted to the Committee and, if approved by the Committee, must also be submitted to the full Board for approval.

The Committee members have considerable financial and business experience and the Board considers that the membership as a whole has sufficient recent and relevant financial experience to discharge its functions. In addition, the Board has determined that each member of the Committee has sufficient accounting or related financial management expertise as required by the UK Listing Authority's Disclosure Rules and Transparency Rules.

The Committee met four times during the financial year. Meeting agendas were organised around the Company's financial reporting cycle and items covered are as follows:

Financial management and reporting
- received regular updates from the CFO on the financial performance and financial management of the Group;
- reviewed the Company's Annual Report, half-yearly results and interim management statements;
- reviewed the Group's accounting policies;
- received quarterly reports from the treasury function on the funding, liquidity and operational capabilities of the Group and compliance with treasury policies.

Internal control
- considered the effectiveness of the Group's internal controls over financial reporting;
- reviewed the internal audit department's resources and annual audit plan;
- reviewed quarterly reports from internal audit on the results of its audit work and management's implementation of its recommendations;
- reviewed quarterly reports from internal audit on the status of the 2009/10 Sarbanes-Oxley Section 404 assessment programme;
- evaluated the effectiveness of the internal audit department.

External Audit Matters
- received regular reports from the external auditor;
- reviewed and approved the 2009/10 audit work plan;
- received regular updates on the use of non-audit services provided by the external auditor and ensured that all fees were approved in accordance with the Group's policy;
- reviewed the effectiveness and independence of the external auditor;
- approved the re-appointment, remuneration and engagement letter of the external auditor.

Other
- reviewed quarterly security updates which include whistle-blowing;
- reviewed quarterly related party transactions reports;
- reviewed the Company's US listing and recommended deregistration to the Board;
- reviewed the Group's Risk Register.

The Committee also received updates from finance departments across the Group, the Director of Group Taxation, the Chairman of the Data Governance Committee and the Group Head of Health and Safety during the year.

The external auditors have attended all meetings of the Committee during the year. The Director of Audit and Risk Management has direct access to the Committee Chairman and the external audit partner.

Internal control and risk management
The Directors have overall responsibility for establishing and maintaining the Group's systems of internal control and risk management and for reviewing their effectiveness. These systems are designed to manage, and where possible eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss. An ongoing process for identifying, evaluating and managing the significant risks faced by the Group has been established, in accordance with the guidance of the Turnbull Committee on internal control issued in September 1999 and updated by the Financial Reporting Council in October 2005. This process has been in place for the year ended 30 June 2010 and up to the date on which the financial statements were approved.

The Committee, on behalf of the Board, considers the effectiveness of the operation of the Group's systems of internal control and risk management during the year and this review has been carried out for the year ended 30 June 2010 and up to the date on which the financial statements were approved. This review relates to the Company and its subsidiaries and does not extend to joint ventures. The Committee meets on at least a quarterly basis with the Group's Director of Audit and Risk Management and the external auditors.

There is a comprehensive budgeting and forecasting process, and the annual budget, which is regularly reviewed and updated, is approved by the Board. Performance is monitored against budget through weekly and monthly reporting cycles. Monthly reports on performance are provided to the Board and the Group reports to shareholders each quarter. Each area of the Group carries out risk assessments of its operations and ensures that the key risks are addressed.

The internal audit team provides objective assurance as to the effectiveness of the Group's systems of internal control and risk management to the Group's operating management and to the Committee.

Disclosure controls and procedures

The Company maintains disclosure controls, procedures and systems that are designed to ensure that information required to be disclosed as part of the Company's UK listing obligations is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

The Company has established a disclosure committee. The committee is chaired by the Company Secretary and its members consist of senior managers from group finance, legal and investor relations. It has responsibility for considering the materiality of information (including inside information) and, on a timely basis, determination of the disclosure and treatment of such information. The committee also has responsibility for overseeing the process for the formal review of the contents of the Company's Annual Report.

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the design and operation of these disclosure controls, procedures and systems at 30 June 2010. Based on that evaluation, the CEO and CFO of the Company have concluded that the Company's disclosure controls and procedures are effective.

Changes in internal controls

No change in the Group's internal control over financial reporting has occurred during the year ended 30 June 2010 that has materially affected, or is reasonably likely to materially affect, the Group's internal control over financial reporting.

Use of external auditors

The Group has a policy on the provision by the external auditors of audit and non-audit services, which categorises such services between:

- those services which the auditors are not permitted to provide;
- those services which are acceptable for the auditors to provide and the provision of which has been pre-approved by the Audit Committee; and
- those services for which the specific approval of the Audit Committee is required before the auditors are permitted to provide the service.

The policy defines the types of services falling under each category and sets out the criteria which need to be met and the internal approval mechanisms required to be completed prior to any engagement. An analysis of all services provided by the external auditors is reviewed by the Committee on a quarterly basis.

For the year ended 30 June 2010, the Committee has discussed the matter of audit independence with Deloitte LLP, the Group's external auditors, and has received and reviewed confirmation in writing that, in Deloitte LLP's professional judgment, Deloitte LLP is independent within the meaning of all UK regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired.

The Committee was satisfied throughout the year that the objectivity and independence of Deloitte LLP was not in any way impaired by either the nature of the non-audit related services undertaken during the year, the level of non-audit fees charged, or any other facts or circumstances. There were no services provided during the year that were not either pre-approved by the Audit Committee or for acceptable services up to the value of £50,000, approved by the CFO with subsequent approval by the Audit Committee, in accordance with the Group's policy.

The appointment of Deloitte LLP as the Group's external auditors (incumbents since 2002) is kept under review. The Committee has approved the external auditors' remuneration and terms of engagement and is fully satisfied with the performance, objectivity and independence of the external auditors. The Committee has recommended that a resolution to reappoint the external auditors as the Company's statutory auditors be proposed at the Company's forthcoming AGM. The external auditors are required to rotate the audit partner responsible for the engagement every five years. The current lead partner will be standing down after the 2009/10 audit and a new lead partner will be in place for the 2010/11 financial year.

Conflicts of Interest

Under UK company law, all Directors must seek authorisation before taking up any position with another company that conflicts, or may possibly conflict, with the Company's interests. The Company's articles of association contain provisions to allow the Directors to authorise situations of potential conflicts of interest so that a Director is not in breach of his duty under company law. All existing external appointments for each Director have been authorised by the Board and each authorisation is set out in a Conflicts Register. Directors are required to notify the Board of potential conflicts so that they can be considered, and if appropriate, authorised by the Board. In addition the Corporate Governance and Nominations Committee conducts an annual review of Directors' conflicts and reports its findings to the Board.

The Corporate Governance and Nominations Committee reviewed the Board's conflicts during the financial year and concluded that conflicts had been appropriately authorised and that the process for authorisation is operating effectively. The Corporate Governance and Nominations Committee and the Board will continue to monitor and review potential conflicts of interest on a regular basis.

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Data Governance

The Company established a Data Governance Committee (the "Committee") during the 2008/09 financial year. The Committee reports to the Audit Committee and a committee of senior management, which is chaired by the CEO. The Committee has the role of ensuring that appropriate procedures and controls are in place to ensure that the Group processes personal data in accordance with Data Protection laws, and that individuals are able to exercise their rights under such laws. A set of policies has been updated and further developed under the Committee to outline and promote consistent standards and practices in the collection and use of personal data across the Group. The policies also set out the responsibilities of employees in managing personal data and the escalation process to be followed, should employees become aware of any breach of policy.

Communication with shareholders

Presentations and webcasts on the development of the business are available to all shareholders on the Company's corporate website. The Company also uses email alerts and actively promotes downloading of all reports enhancing speed and equality of shareholder communication. The Company has taken full advantage of the provisions within the Companies Act 2006 allowing the website to be used as the primary means of communication with shareholders where they have not requested hard copy documentation. The shareholder information section on pages 114 to 115 contains further details on electronic shareholder communications together with more general information of interest to shareholders which is also included on the Company's corporate website.

The Company is committed to maintaining and improving dialogue with shareholders in order to ensure that the objectives of both the Group and the shareholders are understood.

A programme of meetings with institutional shareholders, fund managers and analysts takes place each year. The Company also makes presentations to analysts and investors around the time of the half-year and full-year results announcement; conference calls are held with analysts and investors following the announcement of the first quarter and third quarter results, and on occasion, following the announcement of the fourth quarter results, and presentations are made during the year to many existing or potential shareholders. During the year, in particular following the proposal from News Corporation, various members of the Board, including the Senior Independent Director, met with institutional shareholders and representative bodies, reinforcing the continuation of open dialogue and discussion of strategy between the Board and its shareholders. Non-Executive Directors are offered the opportunity to attend meetings with major shareholders and are expected to attend if required.

The Board views the AGM as an opportunity to communicate with private investors and sets aside time at these meetings for shareholders to ask questions of the Board. At the AGM, the Chairman provides a brief summary of the Company's activities for the previous year to the shareholders. All resolutions at the 2009 AGM were voted by way of an electronic poll. This follows best practice and allows the Company to count all votes rather than just those of shareholders attending the meeting. As recommended by the Combined Code, all resolutions were voted separately and the voting results, which included all votes cast for, against and those withheld, together with all proxies lodged prior to the meeting, were indicated at the meeting and the final results were released to the London Stock Exchange as soon as practicable after the meeting. The announcement was also made available on the Company's corporate website. As in previous years, the proxy form and the announcement of the voting results made it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for or against the resolution.

Directors' responsibilities

The responsibilities of the Directors are set out on page 55.

Other governance and statutory disclosures

Business review

The Companies Act 2006 requires the Company to set out in the Directors' Report a fair review of the business of the Group during the financial year ended 30 June 2010 including an analysis of the position of the Group at the end of the financial year, and a description of the principal risks and uncertainties facing the Group (known as a 'Business Review'). The purpose of the Business Review is to enable shareholders to assess how the Directors have performed their duty under section 172 of the Companies Act 2006.

The information that fulfils the Business Review requirements can be found in the following sections of the Directors' Report.

- Chief Executive Officer's statement on page 4
- Performance KPIs on pages 6 to 7
- Review of the business on pages 8 to 17
- Financial review on pages 27 to 33
- Principal risks and uncertainties that face the Group are described on pages 23 to 26
- Significant trends that could have a material effect on the performance of the Group are described on pages 32 to 33
- People matters on pages 21 to 22
- Community and environmental matters on pages 18 to 21.

Pages 4 to 54 inclusive (together with the sections incorporated by reference) consist of a Directors' Report that has been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by the law.

Principal activities

British Sky Broadcasting Group plc is the holding company of the British Sky Broadcasting group of companies (the "Group"). The Group's principal activities are detailed in the Review of the business on pages 8 to 17.

Results and dividends

The profit for the year ended 30 June 2010 was £878 million (2009: £259 million). The Directors recommend a final dividend for the year ended 30 June 2010 of 11.525 pence per ordinary share which, together with the interim dividend of 7.875 pence paid to shareholders on 20 April 2010, will make a total dividend for the year of 19.40 pence (2009: 17.6 pence). Subject to approval at the AGM, the final dividend will be paid on 12 November 2010 to shareholders appearing on the register at the close of business on 22 October 2010.

Share capital

The Company's issued ordinary share capital at 30 June 2010 comprised one class of ordinary shares. All of the issued ordinary shares are fully paid and rank equally in all respects. Further details of the Company's share capital is disclosed in notes 25 and 26 to the consolidated financial statements.

Interests in voting rights

Information provided to the Company pursuant to the UK Listing Authority's Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 28 July 2010, the Company had been notified under DTR5 of the following significant holdings of voting rights in its shares.

Identity of person or group	Amount owned	Percent of class
News UK Nominees Limited(i)	686,021,700	39.14
Capital Research and Management Company(ii)	88,008,696	5.02
The Capital Group Companies, Inc.(ii)	55,977,854	3.10

(i) *Direct holding which is subject to restrictions on its voting rights (please see "Voting rights" below).*

(ii) *Indirect holding.*

At 28 July 2010, 39.14% of the Company's shares are held by News UK Nominees Limited, a company incorporated under the laws of England and Wales which is an indirect wholly owned subsidiary of News Corporation. As a result of Rupert Murdoch's ability to appoint certain members of the Board of Directors of the corporate trustee of the Murdoch Family Trust, which beneficially owns less than 1% of News Corporation's Class A Common Stock and 38.4% of its Class B Common Stock, Rupert Murdoch may be deemed to be a beneficial owner of the shares beneficially owned by the Murdoch Family Trust. Rupert Murdoch, however, disclaims any beneficial ownership of those shares. Also, Rupert Murdoch beneficially owns less than 1% of News Corporation's Class A Common Stock and an additional 1.3% of its Class B Common Stock. Thus, Rupert Murdoch may be deemed to beneficially own in the aggregate less than 1% of News Corporation's Class A Common Stock and 39.7% of its Class B Common Stock.

The ESOP was established to satisfy awards made to participants of the Company's employee share plans. The trustees of the ESOP have waived the right to dividends payable in respect of the shares held by it, except to the extent of 0.0001% of the dividend payable on each share. At 30 June 2010, the ESOP had an interest in 8,515,344 of the Company's ordinary shares. The Trustees, who are independent of the Company, have full discretion how they vote the ordinary shares held by the ESOP.

Voting rights

The Company's articles of association provide that subject to any rights or restrictions attached to any shares, on a show of hands every member present in person or by proxy shall have one vote, and on a poll every member shall have one vote for every share of which he is a holder. On a poll votes may be given either personally or by proxy or (in the case of a corporate member) by a duly authorised representative.

A shareholder entitled to attend and vote at a general meeting may appoint one or more proxies to attend and vote instead of him. If a member appoints more than one proxy he must specify the number of shares which each proxy is entitled to exercise rights over. A proxy need not be a shareholder of the Company. Holders of the Company's ordinary shares do not have cumulative voting rights.

A voting agreement dated 21 September 2005 was entered into between the Company, BSkyB Holdco Inc, News Corporation and News UK Nominees Limited which became unconditional on 4 November 2005 and caps News UK Nominees Limited's voting

Other governance and statutory disclosures
continued

rights at any general meeting at 37.19%. The provisions of the voting agreement cease to apply on the first to occur of a number of circumstances which include the date on which a general offer is made by an independent person (as defined in the voting agreement) for the ordinary share capital of the Company.

Restrictions on transfer of securities
There are no specific restrictions on the transfer of securities in the Company, which is governed by the articles of association and prevailing legislation, nor is the Company aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

Variation of rights
Subject to the Companies Act 2006, rights attached to any class of shares maybe varied with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the shareholders.

Board of Directors
The names and biographical details of the Directors of the Company are given on pages 34 to 35. There were no changes to the Board of Directors during the financial year. Details of the Directors retiring at the Company's AGM on 22 October 2010 are disclosed within the corporate governance report on page 38.

The Directors' interests in the ordinary shares and options of the Company are disclosed within the report on Directors' remuneration on pages 46 to 54.

Appointment and retirement of Directors
The Directors may from time to time appoint one or more Directors. Any such Director shall hold office only until the next AGM and shall then be eligible for reappointment by the Company's shareholders. In accordance with the Company's current articles of association, one-third of the Directors must retire by rotation each year. In accordance with the Combined Code, any Director who has served more than three three-year terms (other than those holding an executive position) is subject to annual reappointment.

Directors' powers in relation to the Company issuing its own shares
The Directors were granted authority at the 2009 AGM to allot relevant securities up to a nominal amount of £289,000,000. This authority will apply until the conclusion of this year's AGM. An ordinary resolution to renew the Directors' authority will be proposed at the 2010 AGM. A special resolution will also be proposed to renew the Directors' powers to make non-pre-emptive issues for cash in connection with rights issues and otherwise up to a nominal amount of £43,500,000.

Significant agreements
Details of any significant agreements that take effect, alter or terminate on a change of control of the Company, are disclosed in the review of the business on pages 16 and 17.

Payment policy
The policy of the Group is to agree terms of payment with suppliers prior to entering into a contractual relationship. In the absence of a specific agreement, it is the policy of the Group to pay suppliers in accordance with its standard payment terms of 45 days. The Group had below 45 days' purchases outstanding at 30 June 2010 (2009: below 45 days), based on the total amount invoiced by non-programme trade suppliers during the year ended 30 June 2010. Programme creditors include significant balances which are not yet contractually due. In respect of amounts both contractually due and invoiced, the outstanding number of days' purchases is below 45 days (2009: below 45 days).

Financial instruments
Details of the Group's use of financial instruments, together with information on our risk management objectives and policies, and our exposure to price risks, credit risks, liquidity risks and cash flow risks, can be found in notes 23 and 24 to the consolidated financial statements.

Charitable contributions and community and environmental activities
The Bigger Picture Review, which does not form part of the Annual Report, will be made available online in September 2010, and will provide further information on the Group's commitment to corporate responsibility, including community and environmental activities (see www.sky.com/thebiggerpicture). An overview of the Group's Bigger Picture approach, including community and environmental activities is also provided in the review of the business on pages 18 to 21.

During the financial year the Group gave a total of £3,840,454 (2009: £2,598,015) in charitable donations in the form of cash. These donations were for the purpose of supporting Bigger Picture activities focusing on responsibility, environment, sport and arts.

- Responsibility: as a responsible business Sky wants to play its part in the communities where it operates and where its employees live and work. The Group gave a total of £552,094 to support community activities during the year. This figure includes matched employee fundraising activities and matched payroll giving;
- Environment: the Group gave a total of £1,673,161 to activities that help protect the environment and tackle climate change through charitable donations to organisation such as WWF and Global Action Plan;
- Arts: the Group gave £1,089,324 to activities which make the arts more accessible through charitable donations to organisations such as Artichoke and English National Ballet;
- Sport: the Group gave £525,875 to encourage participation in sport through the Youth Sport Trust.

The Group's total community investment (cash, time and management costs) will be published in the Bigger Picture Review referred to above.

Political contributions
Political contributions of the Group in the UK during 2010 amounted to £3,800 (2009: nil).

The Company hosted a drinks reception at the Conservative Party Conference in October 2009 with the Conservative Creative

Industries Network to enable Members of Parliament, peers and journalists to meet leaders from the creative industries. The Company does not consider that this was a political donation but due to the wide interpretation of what constitutes a political donation under the Companies Act 2006 it was felt that it was prudent to make a disclosure.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the review of the business on pages 8 to 17. The financial position of the Group, its cash flows and liquidity position are described in the financial review on pages 27 to 33. In addition, notes 22, 23 and 24 to the consolidated financial statements include details of the Group's treasury activities, long term funding arrangements, financial instruments and hedging activities and exposure to financial risk.

As set out above, the Group has sufficient financial resources which, together with internally generated cash flows, will continue to provide sufficient sources of liquidity to fund its current operations, including its contractual and commercial commitments as set out on pages 95 to 96, its approved capital expenditure and any proposed dividends, and the Group is well placed to manage its business risks successfully, despite the current economic outlook.

After making enquires, the Directors have formed the judgment, at the time of approving the consolidated financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.

Disclosure of information to auditors

In accordance with the provisions of Section 418 of the Companies Act 2006, each of the persons who are Directors of the Company at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

Auditors

Deloitte LLP, the auditors of the Company, have expressed their willingness to continue in office. A resolution to reappoint them as the Company's auditors and to authorise the Directors to determine their remuneration will be proposed at the forthcoming AGM.

Annual General Meeting

The notice convening the AGM, to be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on 22 October 2010 at 11.00am, is available for download from the Company's corporate website at www.sky.com/corporate.

By order of the Board,
Dave Gormley
Company Secretary
28 July 2010

Business review
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Report on Directors' remuneration

Remuneration policy overview

- The objective of our pay policy across the Company is to reward people fairly and competitively, in line with performance and in order to attract and retain the best people. For Executive Directors, remuneration is heavily geared to the achievement of challenging objectives and targets that directly align executive and shareholder interests.
- Currently the ratio of fixed pay to variable pay remains one of the lowest in the FTSE 100. Following the appointment of both the CEO and CFO on compensation lower than their respective predecessors, a commitment was given by the Committee to move their fixed pay closer to market norms for their positions over time.
- In light of the uncertain external environment that has prevailed over the last two years, and notwithstanding the Company's own very strong performance, the Committee has judged that the time is not right to award increases in fixed pay other than nominal increases.
- In reviewing remuneration levels in general, the Committee notes that the other major element of fixed pay, namely pension provision, remains significantly below market norms.
- As a direct consequence of weighting total remuneration heavily on variable pay and in alignment with shareholder return, shareholders should note that in circumstances in which there is significant share price outperformance, reported compensation in a single period may appear higher than market norms.

1. Membership of the Remuneration Committee

During the year ended 30 June 2010, the Remuneration Committee (the "Committee") met four times and was comprised of the following Independent Non-Executive Directors:

- Nicholas Ferguson (Chairman)
- David Evans
- Jacques Nasser
- Daniel Rimer (joined the Committee on 27 January 2010.)

2. Advisors

Hewitt New Bridge Street (HNBS) has been appointed by the Committee to act as the advisors. HNBS advises on all aspects of senior executive remuneration and has no other connection with the Company other than in the provision of advice on executive and employee remuneration. No executive was present when matters affecting his remuneration were considered.

The Chief Executive and the Director for People provide information to the Committee on remuneration but not in respect of their own remuneration. The Committee was supported by the Company Secretary, Finance and Human Resources functions. From time to time, the Company holds consultation meetings with a range of institutional investors, concerning aspects of the Committee's policy, and has taken their advice into account in arriving at remuneration decisions.

3. Remuneration Committee

Role of the Remuneration Committee and terms of reference

The Committee is responsible for recommendations to the Board regarding:

- the design and implementation of incentive compensation arrangements including share-based schemes;
- remuneration packages for Executive Directors of the Company including basic salary, performance-based bonus and long-term incentives, pensions and other benefits;
- the Company's policy on remuneration for Board Directors. It also reviews the proposals made by the CEO for other Senior Executives;
- any payments or benefits offered to employees in excess of £250,000 which do not form part of an employee's expected remuneration or benefits require the approval of the Committee.

The full terms of reference for the Committee are available on the Company's corporate website.

4. Elements of Executive Director and Senior Executive pay

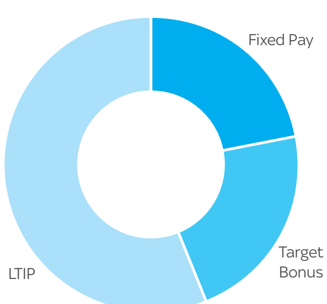
4.1 Remuneration paid to the Executive Directors is made up as follows:

		Performance Period	Conditions
Fixed Pay			
Basic salary (see section 4.2)		Salaries reviewed annually	Salaries reviewed against external benchmarks and against individual performance.
Pension and other benefits (sections 4.3 and 4.4)		Not applicable	Not applicable
Variable Pay			
Annual bonus (section 4.5)	Payable against achievement of short-term objectives set during the year	1 year	Targets set by the Committee for • Operating profit • Free cash flow • Customer growth
Long Term Incentive Plan (LTIP) award (section 4.6)	Payable against achievement of stretching long-term objectives	3 years	30% subject to TSR performance vs. the FTSE 100 over three years. 70% subject to 3 year targets • EPS • Operating cash flow • Revenue growth
Co-Investment LTIP award (section 4.6)	Only operates if employee invests own money to buy shares. Company matches shares with an LTIP award which vests after 3 years if performance conditions are met	3 years	The number of invested shares is matched up to a maximum of 1.5 shares for every 1 invested, subject to a three-year EPS performance condition. The investment eligible to receive matching awards is limited to an amount equivalent to 50% of an individual's gross annual bonus.

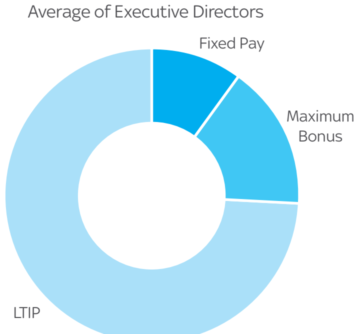
Remuneration mix

The charts below show the relative weight of the elements making up the remuneration mix.

TARGET REMUNERATION
Average of Executive Directors



MAXIMUM REMUNERATION
Average of Executive Directors



Notes to chart:

- *Target performance assumes target annual bonus and minimum level of vesting under the LTIP.*
- *Maximum performance assumes maximum annual bonus and maximum vesting under the LTIP.*
- *The LTIP assumes maximum investment into the co-investment element.*
- *The LTIP ignores share price growth.*

Fixed Pay

Fixed pay is at below market norms for Executive Directors. Following the salary increases awarded on 1 July 2010 the Executive Directors' fixed pay remains in the lower quartile of the comparator benchmark data.

4.2 Basic salary

Basic salaries for Executive Directors and Senior Executives are reviewed by the Committee by benchmarking data from external sources relative to industry sectors/companies of a similar size. The Company uses a subset of the FTSE 100 as its benchmark. It also takes into consideration the pay principles applied elsewhere in the Company.

Executive Directors' salaries remain at below market levels. The Committee has reviewed salary levels for 2010, and awarded Jeremy Darroch an increase of 2.5% to £888,000 and Andrew Griffith an increase of 4% to £546,000 from 1 July 2010.

4.3 Pensions

The Group provides pensions to eligible employees through a single pension plan, the BSkyB Pension Plan ("Pension Plan"), which is a defined contribution plan. Executive Directors contribute 4% of pensionable salary (basic salary less the pension offset) into the Pension Plan each year and the Company matches this with a contribution of 8% of pensionable salary. For Executive Directors

Report on Directors' remuneration
continued

this contribution rate is well below market norms. There is no other additional top up arrangement and the Group has no legacy defined benefit plans.

The Plan has income protection of up to two thirds salary, or £300,000 and insured death in service of up to one third salary, which can be taken entirely as pension, 50% lump sum and 50% pension or entirely as a lump sum, subject to the lifetime allowance.

4.4 Other benefits

Executive Directors are entitled to the use of a company car and along with all employees, private medical insurance and life assurance cover equal to two times base salary, increased to four times base salary if they become members of the Pension Plan.

Variable Pay

The Committee's intention is that performance-related elements of pay continue to represent a higher proportion of remuneration than market norms. This, combined with the fact that the Company's pension arrangements for Executive Directors are considerably less generous than those found at comparable companies, means that a large amount of pay is at risk. Pay is competitive only if the Company's stretching targets are delivered.

4.5 Annual bonus

For the CEO, the maximum bonus that may be awarded is 200% of salary, while for the CFO, the maximum bonus that may be awarded is 125% of salary, and for on-target performance he would receive 100% of salary.

Performance during the year ended 30 June 2010 was very strong across the board and exceeded each of the targets for adjusted operating profit (2009/10 achievement: £855m), adjusted free cash flow (2009/10 achievement: £626m) and DTH customer growth (2009/10 achievement: 418,000). The CEO and CFO were awarded the following bonus payments:

	Bonus amount (£)	As a % of salary
Jeremy Darroch	1,732,500	200%
Andrew Griffith	656,250	125%

For the year ending 30 June 2011 the operational measures that govern bonus payouts will continue to be: operating profit, free cash flow and DTH customer growth.

The Committee retains the discretion to adjust payouts either up or down as an exception, if they feel that an important aspect of performance has not been reflected.

4.6 LTIP

The Company operates an LTIP for Executive Directors and Senior Executives. Awards are:

- subject to stretching performance and TSR measures.
- made to any employee or full-time Executive Director of the Group at the discretion of the Committee.
- normally made as a nil priced option.
- not transferable or pensionable.
- made over a number of shares in the Company, determined by the Committee.
- usually satisfied using shares purchased by the Company in the market.

The Committee believes that conditional (performance) share awards continue to be the best long-term incentive vehicle for Executive Directors and Senior Executives. The Committee approved the facility to award matching shares through the LTIP (Co-Investment awards) in 2009. The Committee believes that the introduction of the Co-Investment facility will further align executives with shareholders by promoting the ownership of shares within the executive population. Awards were first granted following the payment of the 2008/09 annual bonus and it is intended to be operated annually thereafter.

Design of LTIP plan

(i) LTIP award

Grants are made every year and vesting occurs every two years. In the first year, an Executive may be granted an award of shares that vests at the end of the three year performance cycle subject to performance conditions. In the second year a further discretionary award of up to normally no more than 100% of the year one award can be made. This award vests at the same time as the first award. The grant is made in terms of a number of shares as opposed to a monetary value and therefore values in relation to salary may vary with share price movements.

(ii) Co-Investment LTIP award

Executive Directors who participate in the plan by investing their own money in the Company's shares will be granted a conditional award of BSkyB shares based on the amount they have invested in the Group. These matching shares will vest three years later only if three year EPS targets are met, up to a maximum of 1.5 shares for every 1 invested on a pre-tax basis. The investment eligible to receive matching awards will be limited to an amount equivalent to 50% of the individual's gross annual bonus.

How the LTIP operates

Performance conditions for LTIP

The Committee reviews the performance conditions for the LTIP from time to time to ensure that they remain appropriate.

(i) Vesting of LTIP awards

The awards vest, in full or in part, dependent on points gained for satisfying performance targets measured over three years. Performance targets are calibrated to ensure the achievement of Sky's stretching long-term goals, and the cumulative total points achieved governs vesting.

Vesting of 70% of the award is dependent on operational measures, while 30% is governed by TSR performance. The specifics of the measures and targets are as follows:

i) 70% based on operational targets

In the event of a change of control the Committee has the discretion on how awards will vest under the plan.

For awards made in 2008 and 2009 (i.e. awards which will vest in 2011) and for awards to be made in 2010, (i.e. awards which will vest in 2013) the operational performance conditions should be subject to EPS, operating cash flow and revenue growth. EPS is generally defined as adjusted EPS, however, the Committee will review the measure and may amend the definition at its discretion. Measuring operating cash flow encourages the conversion of profit into cash flow and gives a better indication of the underlying health of the business than free cash flow per share ("FCF"). Revenue growth recognises the growth opportunity or the contribution existing customers make to the financial performance, through the number of different products now offered by the Company. Awards made prior to July 2008 were subject to EPS, FCF and DTH customer growth.

Points are awarded for performance on three operational measures as follows:

CONDITIONS FOR AWARDS VESTING IN 2011

Performance Conditions					
EPS growth		Operating cash flow		Revenue growth	
Performance achieved	Points awarded	Performance achieved (% of target)	Points awarded	Performance achieved (% of target)	Points awarded
RPI + 8% pa	10	105% or more	10	105% or more	10
RPI +7% pa	8	100%	8	100%	8
RPI +6% pa	6	95%	6	95%	6
RPI +5% pa	4	90%	4	90%	4
RPI +4% pa	2	85%	2	85%	2
RPI +3% pa	1	75%	1	75%	1
Less than RPI + 3% pa	0	Less than 75%	0	Less than 75%	0

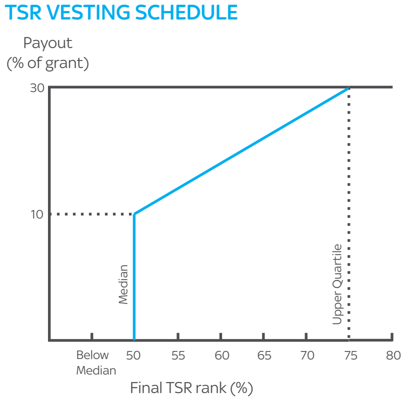
The total number of points awarded governs the extent of vesting of the operational portion, according to a straight-line vesting schedule:

	Resulting vesting	
Total points achieved	% of operational portion	% of overall award
Less than 1	0%	0%
1	10%	7%
1-21	10% – 100% on a straight-line basis	7% – 70% on a straight-line basis
21 or more	100%	70%

ii) 30% based on TSR Performance

The Company's TSR performance is measured relative to the constituents of the FTSE 100. If the Company's TSR performance is below median, the TSR element of the award lapses with no vesting. For median performance, one third of the TSR portion of the award vests. For performance in the upper quartile, the whole TSR portion of the award vests. For performance between median and upper quartile, vesting is on a straight-line basis, as shown in the chart below:

TSR VESTING SCHEDULE



TSR Performance	Payout
Below Median	0%
50%	10%
55%	14%
60%	18%
65%	22%
70%	26%
75%	30%
100%	30%

TSR calculations are conducted independently by HNBS, employing a methodology which averages share prices over the three months prior to the start and the three months prior to the end of the three-year performance period.

CONDITIONS FOR AWARDS VESTING IN 2009

The TSR performance of the Company in relation to the awards that vested in 2009 came in at above median at 54% meaning that 13% of this element of the award vested.

Actual Points Awarded		
EPS growth	FCF	DTH customer growth
Actual points awarded	Actual points awarded	Actual points awarded
4.34	10.00	9.29

The number of points awarded exceeded 21; therefore, 100% of the operational portion of the LTIP vested.

As the 70% portion of the award relative to the operational performance conditions were met in full this meant that 83% of the total award vested.

The TSR performance targets will not be applicable to awards made in 2010.

(ii) Co-Investment LTIP award

Awards are subject to EPS growth targets. EPS is generally defined as adjusted EPS, however, the Committee will review the measure and may amend the definition at its discretion. For the awards made in 2009 EPS growth of RPI +3% p.a. is required for vesting at target (1x match) with growth of RPI +6% for maximum ($1^1/_2$ x match), straight line vesting will apply for achievement levels between 3% and 6%. The match is based on an investment of up to an amount equivalent to 50% of gross bonus.

The performance conditions for the co-investment LTIP awards reflect the fact that participants invest their own money in the Company's shares and are exposed to downside risk throughout the three year period.

5. Other share plans

5.1 Management Long-Term Incentive Plan ("Management LTIP")

The Company also operates a Management LTIP, which has replaced options granted under the Executive Share Option Scheme. Selected employees will participate in the Management LTIP, but this will not include any Executive Directors or Senior Executives who participate in the LTIP. Awards under this scheme are made at the discretion of the CEO. To date, the Management LTIP has mirrored the LTIP for Senior Executives and Executive Directors, with the same performance conditions.

5.2 Sharesave Scheme

The Sharesave Scheme is open to all UK and Irish employees. Options are normally exercisable after either three or five years from the date of grant. The price at which options are offered is not less than 80% of the middle-market price on the dealing day immediately preceding the date of invitation. It is the policy of the Group to make an invitation to employees to participate in the scheme following the announcement of the year-end results.

Report on Directors' remuneration
continued

5.3 20 Year Award Plan
A one-off grant was made to all employees in 2009 to celebrate the Company's 20th anniversary. These shares will be delivered in 3 years time. They are not subject to any further performance condition other than continued employment.

5.4 Executive Share Option Schemes ("Executive Schemes")
The Company has in place Approved and Unapproved Executive Share Option Schemes under HMRC guidelines. Executive Directors and Senior Executives who participate in the LTIP do not participate in the Executive Schemes. No options have been granted since 2004.

6. Service agreements
Policy
The Committee's stated policy is that Executive Directors' service agreements will contain a maximum notice period of one year. The Committee will also consider, where appropriate to do so, reducing remuneration to a departing Director. However, the Committee will consider such issues on a case-by-case basis and will consider the terms of employment of a departing Director. A large proportion of each Executive Director's total direct remuneration is linked to performance and therefore will not be payable to the extent that the relevant targets are not met.

Jeremy Darroch
Jeremy Darroch's initial service contract as CFO with the Company commenced on 16 August 2004 and his service contract was revised with effect from 7 December 2007 when he became CEO. The new agreement shall continue unless, or until, terminated by either party giving to the other not less than 12 months' notice in writing. Jeremy Darroch will be paid a bonus amount depending upon the performance criteria adopted by the Committee for each financial year during the continuance of his service agreement with the Company.

Jeremy Darroch is also entitled to other benefits, namely pension benefits, company car, life assurance equal to four times base salary, medical insurance and an entitlement to participate in the LTIP.

Jeremy Darroch has a non-compete clause in his service agreement specifying that he shall not be able to work for any business or prospective business carried on within the UK, which wholly or partially competes with the Group's businesses at the date of termination of his agreement. Such restriction will be for a period of 12 months.

On termination of the agreement, Jeremy Darroch will be entitled to one year's salary, pension and life assurance benefits from the date of termination and a pro-rata bonus up to the date of termination. In the instance of the termination of Jeremy Darroch's employment for cause, he would be paid salary and benefits up to the date of termination but this would not include any pro-rata bonus.

Jeremy Darroch is a Non-Executive Director of Marks & Spencer Group plc and retained fees for this appointment of £73,000 for the year ended 30 June 2010.

Andrew Griffith
Andrew Griffith has a service agreement with the Company that commenced on 7 April 2008 and shall continue unless, or until, terminated by either party giving to the other not less than 12 months' notice in writing. Andrew Griffith will be paid a bonus amount depending upon the performance criteria adopted by the Committee for each financial year during the continuance of his service agreement with the Company.

Andrew Griffith is also entitled to other benefits, namely pension benefits, company car, life assurance equal to four times base salary, medical insurance and an entitlement to participate in the LTIP.

Andrew Griffith has a non-compete clause in his service agreement specifying that he shall not be able to work for any business or prospective business carried on within the UK, which wholly or partially competes with the Group's businesses at the date of termination of his agreement. Such restriction will be for a period of 12 months.

On termination of the agreement, Andrew Griffith will be entitled to one year's salary, pension and life assurance benefits from the date of termination and a pro-rata bonus up to the date of termination. In the instance of the termination of Andrew Griffith's employment for cause, he would be paid salary and benefits up to the date of termination but this would not include any pro-rata bonus.

7. Non-Executive Directors
There has been a 2.5% increase in the basic fees payable to the Non-Executive Directors and the Chairman set by the Board of Directors for the financial year ending 30 June 2011; basic fees are £53,800 (2010: £52,500). Furthermore, the Non-Executive Directors will be paid an additional £10,000 (2010: £10,000) per annum each for membership of the Audit Committee, the Remuneration Committee, the Corporate Governance and Nominations Committee and The Bigger Picture Committee. The Chairman and the Chairmen of the Audit Committee, the Remuneration Committee, the Corporate Governance and Nominations Committee and The Bigger Picture Committee each receives an additional £25,000 per annum (2010: £25,000). The Senior Independent Director will receive an additional fee of £20,000 per annum (2010: £20,000). Each Non-Executive Director is engaged by the Company for an initial term of three years. Reappointment for a further term is not automatic, but may be mutually agreed.

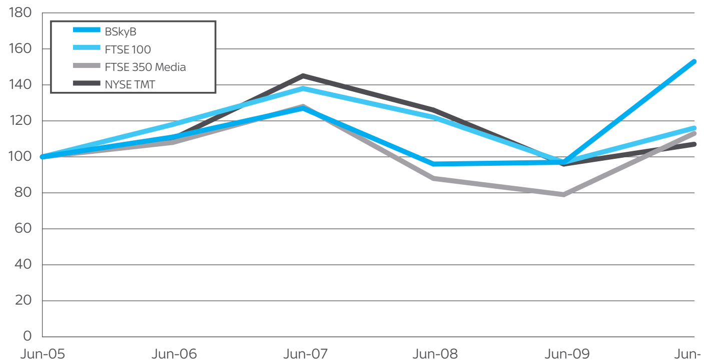
Following the proposal received from News Corporation, the Board established an Offer Committee of the Board comprising the Independent Non-Executive and Executive Directors of the Board. It has been agreed that the Non-Executive Directors be paid additional fees of £10,000 per annum for membership of the Committee, plus £25,000 per annum for the Chairman of the Committee inclusive of the role of Deputy Chairman. These fees will be paid for the duration of the proposal.

8. Performance graph

The following graph shows the Company's performance measured by TSR in the five years to 30 June 2010. This graph shows the growth in the value of a hypothetical £100 holding in the Company's ordinary shares over five years, relative to three indices, which are considered to be the most relevant broad equity market indices for this purpose. The graph is included to meet a legislative requirement and is not directly relevant to the performance criteria approved by shareholders for the Company's long-term incentive plans.

BREAKDOWN OF SHAREHOLDER RETURN FROM 1 JULY 2005 TO 30 JUNE 2010

Breakdown of shareholder return from 1 July 2003 to 30 June 2008



9. Share interests

The Company encourages the Non-Executive Directors to build up a holding in the Company's shares and has introduced a facility whereby Non-Executive Directors can elect to receive a portion of their fees in Sky shares. Shares are purchased on a monthly basis in the market.

The Directors who are deemed to be affiliated with News Corporation (James Murdoch, David DeVoe, Thomas Mockridge and Arthur Siskind) are not allowed to participate in the facility due to the fact that under Rule 9 of the Takeover Code they would be deemed to be acting in concert with News Corporation if they were to purchase shares in the Company and this would place News Corporation under an obligation to make a mandatory offer for all of the issued share capital of the Company.

The interests of the Directors in the ordinary share capital of the Company during the year and as at 28 July 2010 were:

Name of Director	At 28 July 2010	At 30 June 2010	At 30 June 2009
Jeremy Darroch	170,379	170,379	60,000
David Evans	17,770(i)	17,651(i)	16,000(i)
Nicholas Ferguson	11,313	11,224	10,000
Andrew Griffith	34,492	34,492	5,000
Andrew Higginson	3,520	3,447	2,248
Allan Leighton	4,972	4,673	–
Jacques Nasser	1,716	1,607	–
Dame Gail Rebuck	1,307	1,234	–
Daniel Rimer	4,657	4,359	–
Lord Wilson of Dinton	1,820	1,730	486

This table is audited.

(i) 16,000 ordinary shares held in the form of 4,000 ADSs, one ADS is equivalent to four ordinary shares.

Except as disclosed in this report, no other Director held any interest in the share capital, including options, of the Company, or of any subsidiary of the Company, during the year. All interests at the date shown are beneficial.

During the year ended 30 June 2010, the share price traded within the range of 454.8 to 705.0p per share. The middle-market closing price on 25 June 2010, the last trading day of the financial year, was 701.0p.

Report on Directors' remuneration
continued

10. Directors' remuneration

The emoluments of the Directors for the year are shown below:

	Salary and fees £	Bonus scheme £	Benefits £	Total emoluments before pension 2010 £	Employers pensions £	Total emoluments including pension 2010 £	Total emoluments including pension 2009 £
Executive							
Jeremy Darroch	866,250	1,732,500	11,090	2,609,840	68,904	2,678,744	2,336,570
Andrew Griffith	525,000	656,250	13,055	1,194,305	41,604	1,235,909	1,058,035
Non-Executive							
James Murdoch	87,500	–	–	87,500	–	87,500	75,000
David Devoe	52,500	–	–	52,500	–	52,500	50,000
David Evans	62,500	–	–	62,500	–	62,500	60,000
Nicholas Ferguson	117,500	–	–	117,500	–	117,500	110,000
Andrew Higginson	87,500	–	–	87,500	–	87,500	60,000
Allan Leighton	87,500	–	–	87,500	–	87,500	85,000
Thomas Mockridge(i)	52,500	–	–	52,500	–	52,500	21,875
Jacques Nasser	62,500	–	–	62,500	–	62,500	60,000
Gail Rebuck	97,500	–	–	97,500	–	97,500	60,000
Daniel Rimer	56,782	–	–	56,782	–	56,782	50,000
Arthur Siskind	62,500	–	–	62,500	–	62,500	60,000
Lord Wilson of Dinton	97,500	–	–	97,500	–	97,500	85,000
Former Directors							
Chase Carey(ii)	–	–	–	–	–	–	30,512
Lord Rothschild(iii)	–	–	–	–	–	–	17,500
Total emoluments	**2,315,532**	**2,388,750**	**24,145**	**4,728,427**	**110,508**	**4,838,935**	**4,219,492**

This table is audited.

Notes:

(i) *Thomas Mockridge was appointed as a Director of the Company on 10 February 2009.*

(ii) *Chase Carey resigned as a Director of the Company on 10 February 2009.*

(iii) *Lord Rothschild resigned as a Director of the Company on 26 September 2008.*

11. Long Term Incentive Plan

Details of all outstanding awards held under the LTIP are shown below:

	Number of shares under award									
Name of Director	At 30 June 2009	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2010	Exercise price	Market price at date of exercise	Date of Award	Date from which exercisable	Expiry date
James Murdoch	550,000	–	–	550,000(ii)	–	n/a	n/a	03.08.06	n/a	n/a
	550,000	–	–	550,000(ii)	–	n/a	n/a	30.07.07	n/a	n/a
Jeremy Darroch	290,000	–	240,700(iii)	49,300	–	n/a	£5.33	03.08.06	n/a	n/a
	290,000	–	240,700(iii)	49,300	–	n/a	£5.33	30.07.07	n/a	n/a
	295,000	–	244,850(iii)	50,150	–	n/a	£5.33	06.02.08	n/a	n/a
	600,000		–	–	600,000	n/a	n/a	31.07.08	31.07.11	31.07.12
	–	600,000(vi)	–	–	600,000	n/a	n/a	26.08.09	31.07.11	31.07.12
Andrew Griffith	100,000(iv)	–	83,000	17,000	–	n/a	£5.33	03.08.06	n/a	n/a
	50,000(iv)	–	41,500	8,500	–	n/a	£5.33	30.05.07	n/a	n/a
	125,000	–	103,750	21,250	–	n/a	£5.33	30.07.07	n/a	n/a
	125,000	–	103,750	21,250	–	n/a	£5.33	30.04.08	n/a	n/a
	320,000	–	–	–	320,000	n/a	n/a	31.07.08	31.07.11	31.07.12
	–	320,000(vi)	–	–	320,000	n/a	n/a	26.08.09	31.07.11	31.07.12

This table is audited.

Notes:

(i) *The aggregate value received by the Directors on exercise of the LTIP before tax was £10,506,763 (2009: nil).*

(ii) *Under the terms of James Murdoch's service agreement as CEO of the Company, the Company elected to pay him in cash an amount equal to the then market price of the 913,000 shares that vested. The market value of the shares at the time of the payment was 533p. James Murdoch was paid an amount of £4,866,290. Furthermore, upon the payment made to James Murdoch, the awards lapsed.*

(iii) *Jeremy Darroch exercised in total 726,250 shares of which 700,000 were sold and 26,250 were retained as a personal interest.*

(iv) *These awards were made under the Company's Management LTIP plan, prior to Andrew Griffith's appointment as a Director of the Company on 7 April 2008.*

(v) *See performance conditions for LTIP on page 47.*

(vi) *The market price of the shares at the time the shares were awarded was 546.5p.*

12. Co-Investment Plan

Details of all outstanding awards held under the Co-Investment Plan are shown below:

	Number of shares under award									
Name of Director	At 30 June 2009	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2010	Exercise price	Market price at date of exercise	Date of Award	Date from which exercisable	Expiry date
Jeremy Darroch	–	204,425(ii)	–	–	204,425	n/a	n/a	27.08.09	27.08.12	27.08.13
Andrew Griffith	–	75,506(iii)	–	–	75,506	n/a	n/a	27.08.09	27.08.12	27.08.13

This table is audited.

Notes:

(i) *See performance conditions for the Co-Investment Plan on page 47.*

(ii) *Jeremy Darroch holds 79,848 shares as a match under the plan.*

(iii) *Andrew Griffith holds 29,492 shares as a match under the plan.*

Report on Directors' remuneration
continued

13. Executive Share Options

Details of all outstanding options held under the Executive Schemes are shown below:

	Number of shares under option								
Name of Director	At 30 June 2009	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2010	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
Andrew Griffith(i)	3,030(ii)	–	–	–	3,030	£9.90	n/a	23.11.03	23.11.10
	25,222	–	–	–	25,222	£9.90	n/a	23.11.03	23.11.10
	40,025	–	–	–	40,025	£7.94	n/a	06.11.04	06.11.11
	44,184	–	–	–	44,184	£6.62	n/a	01.09.07	01.09.13
	19,819(ii)	–	–	–	19,819	£5.03	n/a	06.08.08	06.08.14

This table is audited.

Notes:

(i) *These are all awards that are outstanding following Andrew Griffith's appointment as a Director on 7 April 2008. As a reminder, the Company has not made any Executive Share Option awards to any employee since 2004.*

(ii) *These options vested following the achievement of the performance target, being the growth in Sky's EPS being equal to or greater than the increase in RPI plus 3% per annum.*

14. Sharesave Scheme Options

Details of all outstanding awards held under the Sharesave Scheme are shown below:

	Number of shares under option							
Name of Director	At 30 June 2009	Granted during the year	Exercised during the year	At 30 June 2010	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
Jeremy Darroch	4,281	–	4,281	–	£3.86	£5.39	n/a	n/a
	–	3,591	–	3,591	£4.33	n/a	01.02.15	01.08.15
Andrew Griffith	2,580	–	–	2,580	£3.72	n/a	01.02.12	01.08.12

This table is audited.

Options under the Company's Sharesave Scheme are not subject to performance conditions.

15. 20 Year Award Plan

Details of all outstanding awards held under the 20 Year Award Plan are shown below:

	Number of shares under award							
Name of Director	At 30 June 2009	Granted during the year	Exercised during the year	At 30 June 2010	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
Jeremy Darroch	100	–	–	100	n/a	n/a	05.02.12	05.04.12
Andrew Griffith	100	–	–	100	n/a	n/a	05.02.12	05.04.12

This table is audited.

Shares granted under the 20 Year Award Plan are not subject to performance conditions.

Signed on behalf of the Board
Nicholas Ferguson
Remuneration Committee Chairman
28 July 2010

Statement of Directors' responsibility

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the Parent Company financial statements under IFRSs as adopted by the EU. Under Company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

The Directors confirm that to the best of their knowledge:

1. The financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. The management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risk and uncertainties that they face.

By order of the Board

Jeremy Darroch
Chief Executive Officer
28 July 2010

Andrew Griffith
Chief Financial Officer
28 July 2010

Independent Auditors' report to the members of British Sky Broadcasting plc

We have audited the financial statements of British Sky Broadcasting Group plc for the year ended 30 June 2010 which comprise the Group and Parent Company Income Statements, the Group and Parent Company Statements of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2010 and of the Group's and the Parent Company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the Group financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the Annual Report in relation to going concern on page 45; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Timothy Powell (Senior Statutory Auditor)

For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
28 July 2010

Consolidated Income Statement

for the year ended 30 June 2010

	Notes	2010 £m	2009 £m
Revenue	2	**5,912**	**5,359**
Operating expense	3	(5,085)	(4,546)
Litigation settlement income	4	269	–
Operating profit		**1,096**	**813**
Share of results of joint ventures and associates	15	32	19
Investment income on litigation settlement	4	49	–
Investment income	5	3	35
Finance costs	5	(122)	(220)
Impairment of available-for-sale investment	6	–	(191)
Profit on disposal of available-for-sale investment	6	115	–
Profit before tax	7	**1,173**	**456**
Taxation	9	(295)	(197)
Profit for the year attributable to equity shareholders of the parent company		**878**	**259**
Earnings per share from profit for the year (in pence)			
Basic	10	50.4p	14.9p
Diluted	10	50.1p	14.8p

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

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2010

	2010 £m	2009 £m
Profit for the year attributable to equity shareholders of the parent company	**878**	**259**
Other comprehensive income		
Amounts recognised directly in equity		
Exchange differences on translation of foreign operations	8	19
Gain on revaluation of available-for-sale investments	117	96
Gain on cash flow hedges	160	377
Tax on cash flow hedges	(45)	(105)
	240	387
Amounts reclassified and reported in the income statement		
Cash flow hedges	(89)	(351)
Tax on cash flow hedges	25	98
Transfer to income statement on disposal of available-for-sale investment	(115)	–
	(179)	(253)
Other comprehensive income for the year (net of tax)	**61**	**134**
Total comprehensive income for the year attributable to equity shareholders of the parent company	**939**	**393**

The accompanying notes are an integral part of this consolidated statement of comprehensive income.

All results relate to continuing operations.

CONSOLIDATED FINANCIAL STATEMENTS
continued

Consolidated Balance Sheet
as at 30 June 2010

	Notes	2010 £m	2009 £m
Non-current assets			
Goodwill	12	852	852
Intangible assets	13	336	345
Property, plant and equipment	14	899	799
Investments in joint ventures and associates	15	149	135
Available-for-sale investments	16	182	261
Deferred tax assets	17	–	17
Trade and other receivables	19	18	21
Derivative financial assets	23	382	202
		2,818	2,632
Current assets			
Inventories	18	343	386
Trade and other receivables	19	538	613
Short-term deposits	23	400	90
Cash and cash equivalents	23	649	811
Derivative financial assets	23	56	37
		1,986	1,937
Total assets		**4,804**	**4,569**
Current liabilities			
Borrowings	22	–	465
Trade and other payables	20	1,526	1,492
Current tax liabilities		136	173
Provisions	21	27	18
Derivative financial liabilities	23	10	46
		1,699	2,194
Non-current liabilities			
Borrowings	22	2,458	2,279
Trade and other payables	22	52	66
Provisions	21	11	12
Derivative financial liabilities	23	17	82
Deferred tax liability	17	7	–
		2,545	2,439
Total liabilities		**4,244**	**4,633**
Share capital	25	876	876
Share premium	26	1,437	1,437
Reserves	26	(1,753)	(2,377)
Total equity (deficit) attributable to equity shareholders of the parent company	26	**560**	**(64)**
Total liabilities and shareholders' equity (deficit)		**4,804**	**4,569**

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

These consolidated financial statements of British Sky Broadcasting Group plc, registered number 2247735, have been approved by the Board of Directors on 28 July 2010 and were signed on its behalf by:

Jeremy Darroch
Chief Executive Officer

Andrew Griffith
Chief Financial Officer

Consolidated Cash Flow Statement

for the year ended 30 June 2010

	Notes	2010 £m	2009 £m
Cash flows from operating activities			
Cash generated from operations	27	1,634	1,205
Interest received		57	47
Taxation paid		(320)	(178)
Net cash from operating activities		**1,371**	**1,074**
Cash flows from investing activities			
Dividends received from joint ventures and associates		30	20
Net funding to joint ventures and associates		(1)	(3)
Proceeds on disposal of an investment		196	–
Purchase of property, plant and equipment		(261)	(261)
Purchase of intangible assets		(183)	(139)
Purchase of available-for-sale investments		–	(19)
Proceeds on disposal of property, plant and equipment		1	2
(Increase) decrease in short-term deposits		(310)	95
Net cash used in investing activities		**(528)**	**(305)**
Cash flows from financing activities			
Proceeds from borrowings		–	398
Repayment of borrowings		(495)	(434)
Proceeds from disposal of shares in Employee Share Ownership Plan ("ESOP")		16	1
Purchase of own shares for ESOP		(56)	(40)
Interest paid		(156)	(217)
Dividends paid to shareholders		(314)	(298)
Net cash used in financing activities		**(1,005)**	**(590)**
Net (decrease) increase in cash and cash equivalents		**(162)**	**179**
Cash and cash equivalents at the beginning of the year		811	632
Cash and cash equivalents at the end of the year		**649**	**811**

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

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Consolidated Statement of Changes in Equity

for the year ended 30 June 2010

	Share capital £m	Share premium £m	ESOP reserve £m	Hedging reserve £m	Available-for-sale reserve £m	Other reserves £m	Retained earnings £m	Total shareholders' (deficit) equity £m
At 1 July 2008	**876**	**1,437**	**(37)**	**7**	**–**	**335**	**(2,786)**	**(168)**
Profit for the year	–	–	–	–	–	–	259	259
Exchange differences on translation of foreign operations	–	–	–	–	–	19	–	19
Revaluation of available-for-sale investment	–	–	–	–	96	–	–	96
Recognition and transfer of cash flow hedges	–	–	–	26	–	–	–	26
Tax on items taken directly to equity	–	–	–	(7)	–	–	–	(7)
Total comprehensive income for the year	**–**	**–**	**–**	**19**	**96**	**19**	**259**	**393**
Share-based payment	–	–	(36)	–	–	–	48	12
Tax on items taken directly to equity	–	–	–	–	–	–	(3)	(3)
Dividends	–	–	–	–	–	–	(298)	(298)
At 30 June 2009	**876**	**1,437**	**(73)**	**26**	**96**	**354**	**(2,780)**	**(64)**
Profit for the year	–	–	–	–	–	–	878	878
Exchange differences on translation of foreign operations	–	–	–	–	–	8	–	8
Revaluation of available-for-sale investment	–	–	–	–	117	–	–	117
Transfer to income statement on disposal of available-for-sale investment	–	–	–	–	(115)	–	–	(115)
Recognition and transfer of cash flow hedges	–	–	–	71	–	–	–	71
Tax on items taken directly to equity	–	–	–	(20)	–	–	–	(20)
Total comprehensive income for the year	**–**	**–**	**–**	**51**	**2**	**8**	**878**	**939**
Share-based payment	–	–	26	–	–	–	(36)	(10)
Tax on items taken directly to equity	–	–	–	–	–	–	9	9
Dividends	–	–	–	–	–	–	(314)	(314)
At 30 June 2010	**876**	**1,437**	**(47)**	**77**	**98**	**362**	**(2,243)**	**560**

For a description of the nature and purpose of each equity reserve, see note 26.

The accompanying notes are an integral part of this consolidated statement of changes in equity.

Notes to the consolidated financial statements

1. Accounting policies

British Sky Broadcasting Group plc (the "Company") is a limited liability company incorporated in England and Wales, and domiciled in the United Kingdom ("UK"). The consolidated financial statements include the Company and its subsidiaries (together, the "Group") and its interests in associates and jointly-controlled entities.

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), the Companies Act 2006 and Article 4 of the International Accounting Standard ("IAS") Regulations. In addition, the Group also complied with IFRS as issued by the International Accounting Standards Board ("IASB").

b) Basis of preparation

The consolidated financial statements have been prepared on a going concern basis (as set out in the Directors' Report) and on an historical cost basis, except for the remeasurement to fair value of financial instruments as described in the accounting policies below.

The Group maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal year 2010, this date was 27 June 2010, this being a 52 week year (fiscal year 2009: 28 June 2009, 52 week year). For convenience purposes, the Group continues to date its consolidated financial statements as at 30 June. The Group has classified assets and liabilities as current when they are expected to be realised in, or intended for sale or consumption in, the normal operating cycle of the Group.

At the beginning of the current year, the Group adopted the following accounting pronouncements that are relevant to its operations, none of which had any significant impact on its results or financial position:

IFRS 8 "Operating Segments"
IAS 1 Revised (2007) "Presentation of Financial Statements"
IAS 23 Revised (2007) "Borrowing Costs"
IFRS 3 Revised (2008) "Business Combinations"
IAS 27 Revised (2008) "Consolidated and Separate Financial Statements"
Amendment to IFRS 2 "Share-based Payment – Vesting Conditions and Cancellations"
Amendments to IFRS 7 "Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments"
Amendment to IAS 39 "Financial Instruments: Recognition and Measurement – Eligible Hedged Items"

c) Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements of the Company from the date control of the subsidiary commences until the date that control ceases. Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

ii. Associates and joint ventures

Associates are entities where the Group has significant influence, but not control or joint control, over the financial and operating policies of the entity. Joint ventures are those entities which are jointly controlled by the Group under a contractual agreement with another party or parties.

These consolidated financial statements include the Group's share of the total recognised gains and losses of associates and joint ventures using the equity method, from the date that significant influence or joint control commences to the date that it ceases, based on present ownership interests and excluding the possible exercise of potential voting rights, less any impairment losses (see accounting policy j). When the Group's interest in an associate or joint venture has been reduced to nil because the Group's share of losses exceeds its interest in the associate or joint venture, the Group only provides for additional losses to the extent that it has incurred legal or constructive obligations to fund such losses, or where the Group has made payments on behalf of the associate or joint venture. Where the disposal of an investment in an associate or joint venture is considered to be highly probable, the investment ceases to be equity accounted and, instead, is classified as held for sale and stated at the lower of carrying amount and fair value less costs to sell.

d) Goodwill

Business combinations that have occurred since 1 July 2004, the date of transition to IFRS (the "Transition Date"), are accounted for by applying the purchase method of accounting. Following this method, goodwill is initially recognised on consolidation, representing the difference between the fair value cost of the business combination and the fair value of the identifiable assets, liabilities and contingent liabilities assumed.

In respect of business combinations that occurred prior to the Transition Date, goodwill has been included at the amounts recognised under the Group's UK Generally Accepted Accounting Principles ("UK GAAP") accounting policies on the Transition Date. On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the determination of profit or loss on disposal, except for goodwill written off to reserves under UK GAAP prior to the Transition Date, which is not reinstated and is not included in determining any subsequent gain or loss on disposal.

Goodwill is stated at cost less any impairment losses and is tested, at least annually, for impairment, based on the recoverable amounts of the cash generating unit to which the goodwill has been allocated. Any impairment identified is recognised immediately in the income statement and is not subsequently reversed. The carrying amount of goodwill in respect of associates and joint ventures is included in the carrying amount of the investment in the associate or joint venture. Goodwill is tested for impairment in line with accounting policy j below.

e) Intangible assets and property, plant and equipment ("PPE")

i. Intangible assets

Research expenditure is recognised in operating expense in the income statement as the expenditure is incurred. Development expenditure (relating to the application of research knowledge to plan or design new or substantially improved products for sale or

Notes to the consolidated financial statements
continued

1. Accounting policies (continued)

use within the business) is recognised as an intangible asset from the point at which it is probable that the Group has the intention and ability to generate future economic benefits from the development expenditure, that the development is technically feasible and that the subsequent expenditure can be measured reliably. Any other development expenditure is recognised in operating expense as incurred.

Other intangible assets, which are acquired by the Group separately or through a business combination, are initially stated at cost or fair value, respectively, less accumulated amortisation and impairment losses, other than those that are classified as held for sale, which are stated at the lower of carrying amount and fair value less costs to sell.

Amortisation of an intangible asset begins when the asset is available for use, and is charged to the income statement through operating expense on a straight-line basis over the intangible asset's estimated useful life, principally being a period between three and ten years, unless the asset life is judged to be indefinite. If the useful life is indefinite or the asset is not yet available for use, no amortisation is charged and an impairment test is carried out at least annually. Other intangible assets are tested for impairment in line with accounting policy j below.

ii. Property, plant and equipment

Owned PPE is stated at cost, net of accumulated depreciation and any impairment losses, (see accounting policy j), other than those items that are classified as held for sale, which are stated at the lower of carrying amount and fair value less costs to sell. When an item of PPE comprises major components having different useful economic lives, the components are accounted for as separate items of PPE.

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are treated as PPE (see accounting policy o).

The cost of PPE, less estimated residual value, is depreciated in operating expense on a straight-line basis over its estimated useful life. Land, and assets that are not yet available for use, are not depreciated. Principal useful economic lives used for this purpose are:

Freehold buildings	25 years
Equipment, furniture and fixtures	3 to 15 years
Assets under finance leases and leasehold improvements	Lesser of lease term and the useful economic life of the asset

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

To the extent that the financing for a qualifying asset is part of the Group's general borrowings, the interest cost to be capitalised is calculated based upon the weighted average cost of borrowing to the Group (excluding the interest on any borrowings specific to any qualifying assets). This is then applied to the expenditures on the asset.

All other borrowing costs are recognised in profit or loss in the period to which they relate.

f) Derivative financial instruments and hedging activities

The Group uses a number of derivative financial instruments to hedge its exposure to fluctuations in interest and foreign exchange rates.

Derivatives are held at fair value from the date on which a derivative contract is entered into. Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of derivative financial instruments is estimated with reference to the contracted value and the appropriate market value prevailing at the balance sheet date. Certain derivatives held by the Group which relate to highly probable forecast transactions ("hedged items"), which meet qualifying criteria under IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"), are designated as cash flow hedges or fair value hedges, and are subject to cash flow hedge accounting or fair value hedge accounting respectively. In certain circumstances, only the intrinsic value of a derivative has been designated as a cash flow hedge, with the remaining fair value not designated as a cash flow hedge. Certain other derivatives held by the Group do not meet the qualifying criteria for recognition for accounting purposes as hedges, despite this being their economic function. Changes in the fair values of these derivatives are recognised immediately in the income statement. The Group does not hold or issue derivatives for speculative purposes.

i. Derivatives that qualify for cash flow hedge accounting

Changes in the fair values of derivatives that are designated as cash flow hedges ("cash flow hedging instruments") are initially recognised in the hedging reserve. In circumstances in which the derivative used is a currency option, only changes in the intrinsic value of the option are designated under the cash flow hedging relationship, with all other movements being recorded immediately in the income statement. Amounts accumulated in the hedging reserve are subsequently recognised in the income statement in the periods in which the related hedged items are recognised in the income statement.

At inception, the effectiveness of the Group's cash flow hedges is assessed through a comparison of the principal terms of the hedging instrument and the underlying hedged item. The ongoing effectiveness of the Group's cash flow hedges is assessed using the dollar-offset approach, with the expected cash flows of hedging instruments being compared to the expected cash flows of the hedged items. This assessment is used to demonstrate that each hedge relationship is expected to be highly effective on inception, has been highly effective in the period and is expected to continue to be highly effective in future periods. The measurement of hedge ineffectiveness for the Group's hedging instruments is calculated using the hypothetical derivative method, with the fair values of the hedging instruments being compared to those of the hypothetical derivative that would result in the designated cash flow hedge achieving perfect hedge effectiveness. The excess of the cumulative change in the fair value of the actual hedging instrument compared to that of the hypothetical derivative is deemed to be hedge ineffectiveness, which is recognised in the income statement.

The Group uses a range of 80% to 125% for hedge effectiveness, in accordance with IAS 39, and any relationship which has effectiveness outside this range is deemed to be ineffective and hedge accounting is suspended.

When a cash flow hedging instrument expires, is terminated or is exercised, or if a hedge no longer meets the qualifying criteria for hedge accounting, any cumulative gain or loss existing in the hedging reserve at that time remains in the hedging reserve and is recognised when the forecast transaction is ultimately recognised in the income statement, provided that the underlying transaction is still expected to occur. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedging reserve is immediately recognised in the income statement and all future changes in the fair value of the cash flow hedging instruments are immediately recognised in the income statement.

ii. Derivatives that qualify for fair value hedge accounting

The Group has designated certain derivatives as fair value hedges as defined under IAS 39. Any changes in the fair value of the derivatives are recognised immediately in the income statement. The carrying values of the underlying hedged items are adjusted for the change in the fair value of the hedged risks, with the gains or losses recognised immediately in the income statement, offsetting the fair value movement on the derivative.

Prospective effectiveness is assessed quarterly, through a comparison of the principal terms of the hedging instrument and the underlying hedged item, including the likelihood of default by the derivative counterparty. The retrospective effectiveness of the Group's fair value hedges is calculated quarterly using the cumulative dollar-offset approach, with movements in the fair value of the hedged item being compared to movements in the fair value of the hedging instrument. The Group uses a range of 80% to 125% for hedge effectiveness and any relationship which has effectiveness outside this range is deemed to be ineffective and hedge accounting is suspended.

iii. Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement. Embedded derivatives are carried on the balance sheet at fair value from the inception of the host contract. Changes in fair value are recognised within the income statement during the period in which they arise.

g) Inventories

i. Acquired and commissioned television programme inventories

Programme inventories are stated at the lower of cost and net realisable value ("NRV"), including, where applicable, estimated subscriber escalation payments, and net of the accumulated expense charged to the income statement to date.

Programming rights are included as inventories when the legally enforceable licence period commences and all of the following conditions have been met: (a) the cost of each programme is known or reasonably determinable; (b) the programme material has been accepted by the Group in accordance with the conditions of the rights, and (c) the programme is available for its first showing. Prior to being included in inventories, the programming rights are classified as television programme rights not yet available for transmission and not recorded as inventories on the Group's balance sheet and are instead disclosed as contractual commitments (see note 28). Payments made upon receipt of commissioned and acquired programming, but in advance of the legal right to broadcast the programmes, are treated as prepayments.

The cost of television programme inventories is recognised in the operating expense line of the income statement, primarily as described below:

Sports – 100% of the cost is recognised in the income statement on the first broadcast or, where the rights are for multiple seasons or competitions, such rights are principally recognised on a straight-line basis across the seasons or competitions.

News – 100% of the cost is recognised in the income statement on first broadcast.

Movies – The cost is recognised in the income statement on a straight-line basis over the period of broadcast rights.

General entertainment – The cost is recognised in the income statement based on the expected value of each planned broadcast.

Where programme rights are surplus to the Group's requirements, and no gain is anticipated through a disposal of the rights, or where the programming will not be broadcast for any other reason, a write-down to the income statement is made. Any reversals of inventory write-downs are recognised as reductions in operating expense.

ii. Set-top boxes, routers and related equipment

Set-top boxes, routers and related equipment are valued at the lower of cost and NRV, the latter of which reflects the value that the business expects to realise from the set-top boxes and related equipment in the hands of the customer, and are recognised through the operating expense line of the income statement. Any subsidy is expensed on enablement, which is the process of activating the viewing card during installation, so as to enable a viewer to view encrypted broadcast services, and effectively represents the completion of the installation process for new subscribers. The amount recognised in the income statement is determined on a weighted average cost basis, in accordance with IAS 2 "Inventory".

iii. Raw materials, consumables and goods held for resale

Raw materials, consumables and goods held for resale are valued at the lower of cost and NRV. The cost of raw materials, consumables and goods held for resale is recognised through the operating expense line of the income statement on a first in first out (FIFO) basis.

h) Financial assets and liabilities

Financial assets and liabilities are initially recognised at fair value plus any directly attributable transaction costs. At each balance sheet date, the Group assesses whether there is any objective evidence that any financial asset is impaired. Financial assets and liabilities are recognised on the Group's balance sheet when the

Notes to the consolidated financial statements
continued

1. Accounting policies (continued)

Group becomes a party to the contractual provisions of the financial asset or liability. Financial assets are derecognised from the balance sheet when the Group's contractual rights to the cash flows expire or the Group transfers substantially all the risks and rewards of the financial asset. Financial liabilities are derecognised from the Group's balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

i. Available-for-sale investments

Equity investments intended to be held for an indefinite period of time are classified as available-for-sale investments. They are carried at fair value, where this can be reliably measured, with movements in fair value recognised directly in the available-for-sale reserve. Where the fair value cannot be reliably measured, the investment is carried at cost.

Any impairment losses in equity investments classified as available-for-sale investments are recognised in the income statement and are not reversible through the income statement, and are determined with reference to the closing market share price at the balance sheet date. Any subsequent increase in the fair value of the available-for-sale investment above the impaired value will be recognised within the available-for-sale reserve.

Available-for-sale investments are included within non-current assets unless the carrying value is expected to be recovered principally through sale rather than continuing use, in which case they are included within current assets. On disposal, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had previously been recognised directly in reserves is recognised in the income statement.

ii. Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments and, where no stated interest rate is applicable, are measured at the original invoice amount, if the effect of discounting is immaterial. Where discounting is material, trade and other receivables are measured at amortised cost using the effective interest method. An allowance account is maintained to reduce the carrying value of trade and other receivables for impairment losses identified from objective evidence, with movements in the allowance account, either from increased impairment losses or reversals of impairment losses, being recognised in the income statement.

iii. Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank accounts, deposits receivable on demand and deposits with maturity dates of three months or less from the date of inception. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are also included as a component of cash and cash equivalents where offset conditions are met.

iv. Short-term deposits

This includes short-term deposits and commercial paper which have maturity dates of more than three months from inception. These deposits are initially recognised at fair value, and then carried at amortised cost through the income statement less any allowance for impairment losses.

v. Trade and other payables

Trade and other payables are non-derivative financial liabilities and are measured at amortised cost using the effective interest method. Trade and other payables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial.

vi. Borrowings

Borrowings are recorded as the proceeds received, net of direct issue costs. Finance charges, including any premium payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying amount of the underlying instrument to which they relate, to the extent that they are not settled in the period in which they arise.

i) Transponder rental prepayments

Payments made in respect of future satellite broadcast capacity have been recorded as prepaid transponder costs. These payments are recognised in the income statement on a straight-line basis over the term of the agreement.

j) Impairment

At each balance sheet date, in accordance with IAS 36 "Impairment of Assets", the Group reviews the carrying amounts of all its assets excluding inventories (see accounting policy g), non-current assets classified as held for sale, financial assets (see accounting policy h) and deferred taxation (see accounting policy p) to determine whether there is any indication that any of those assets have suffered an impairment loss.

An impairment, other than an impairment of an investment in a joint venture or associate, is recognised in the income statement whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. An impairment of an investment in a joint venture or associate is recognised within the share of profit from joint ventures and associates. The recoverable amount is the greater of net selling price, defined as the fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to those units, and then to reduce the carrying amount of other assets in the unit on a pro-rata basis.

An impairment loss for an individual asset or cash generating unit shall be reversed if there has been a change in estimates used to determine the recoverable amount since the last impairment loss was recognised and is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Impairment of goodwill is not reversed.

k) Provisions

Provisions are recognised when the Group has a probable, present legal or constructive obligation to make a transfer of economic benefits as a result of past events where a reliable estimate is available. The amounts recognised represent the Group's best estimate of the transfer of benefits that will be required to settle the obligation as of the balance sheet date. Provisions are discounted if the effect of the time value of money is material using a pre-tax market rate adjusted for risks specific to the liability.

l) ESOP reserve

Where the Company or its subsidiaries purchase the Company's own equity shares, the cost of those shares, including any attributable transaction costs, is presented within the ESOP reserve as a deduction in shareholders' equity in the consolidated financial statements.

m) Revenue recognition

Revenue, which excludes value added tax and transactions between Group companies, represents the gross inflow of economic benefit from Sky's operating activities. The Group's main sources of revenue are recognised as follows:

- Retail subscription revenue, including subscriptions for Sky TV, Sky Broadband and Sky Talk services, is recognised as the goods or services are provided, net of any discount given. Pay-per-view revenue is recognised when the event or movie is viewed.
- Wholesale revenue is recognised as the services are provided to the cable retailers and is based on the number of subscribers taking the Sky channels, as reported to the Group by the cable retailers, and the applicable rate card or contract.
- Advertising sales revenue is recognised when the advertising is broadcast. Revenue generated from airtime sales, where Sky acts as an agent on behalf of third parties, is recognised on a net commission basis.
- Easynet revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be measured reliably. Revenue from separable installation and connection services is recognised when it is earned upon activation. Revenue from the provision of leased lines and private circuits is recognised evenly over the period to which the charges relate. Revenue from the provision of Hosting is recognised evenly over the period to which the charge relates except additional charges for power based on usage.
- Installation, hardware and service revenue is recognised in the income statement when the goods and services are delivered.
- Other revenue principally includes income from Sky Active, Sky Mobile TV, technical platform services, Sky Bet and third-party set-top box sales. With the exception of Sky Bet revenue, other revenue is recognised, net of any discount given, when the relevant goods or service are provided. Sky Bet revenue is recognised in accordance with IAS 39 and represents income in the period for betting and gaming activities, defined as amounts staked by customers less winnings paid out.

Revenue is measured at the fair value of the consideration received or receivable. When the Group sells a set-top box, installation or service and a subscription in one bundled transaction, the total consideration from the arrangement is allocated to each element based on their relative fair values. The fair value of each individual element is determined using vendor specific or third party evidence. The amount of revenue the Group recognises for delivered elements is limited to the cash received.

n) Employee benefits

Wages, salaries, social security contributions, bonuses payable and non-monetary benefits for current employees are recognised in the income statement as the employees' services are rendered.

The Group provides pensions to eligible employees through defined contribution schemes. The amount charged to the income statement in the year represents the cost of contributions payable by the Group to the schemes in exchange for employee services rendered in that year. The assets of the schemes are held independently of the Group.

Termination benefits are recognised as a liability when, and only when, the Group has a demonstrable commitment to terminate the employment of an employee or group of employees before the normal retirement date or as the result of an offer to encourage voluntary redundancy.

The Group issues equity-settled and cash-settled share-based payments to certain employees which must be measured at fair value and recognised as an expense in the income statement, with a corresponding increase in equity in the case of equity-settled payments, and liabilities in the case of cash-settled awards. The fair values of equity-settled payments are measured at the dates of grant using option-pricing models, taking into account the terms and conditions upon which the awards are granted. Cash-settled share-based payments are measured at their fair value as at the balance sheet date. The fair value is recognised over the period during which employees become unconditionally entitled to the awards, subject to the Group's estimate of the number of awards which will be forfeited, either due to employees leaving the Group prior to vesting or due to non-market based performance conditions not being met. Where an award has market-based performance conditions, the fair value of the award is adjusted for the probability of achieving these via the option pricing model. The total amount recognised in the income statement as an expense is adjusted to reflect the actual number of awards that vest, except where forfeiture is due to the failure to meet market-based performance measures. In the event of a cancellation, whether by the Group or by a participating employee, the compensation expense that would have been recognised over the remainder of the vesting period is recognised immediately in profit or loss.

o) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the asset to the lessee. All other leases are classified as operating leases.

When the Group is lessor, sublease income from operating leases is recognised on a straight-line basis over the term of the lease.

When the Group is lessee, assets held under finance leases are recognised as assets of the Group at their fair value on the date of acquisition, or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reductions of the

Notes to the consolidated financial statements
continued

1. Accounting policies (continued)
lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

The lease expense arising from operating leases is charged to the income statement on a straight line basis over the term of the lease. Benefits received and receivable as incentives to enter into operating leases are recorded on a straight line basis over the lease term.

p) Taxation, including deferred taxation
The Group's liability for current tax is based on taxable profit for the year, and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profit. Temporary differences arising from goodwill and the initial recognition of assets or liabilities that affect neither accounting profit nor taxable profit are not provided for. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantially enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and adjusted to reflect an amount that is probable to be realised based on the weight of all available evidence. Deferred tax is calculated at the rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets and liabilities are not discounted. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also included within equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

q) Distributions to equity shareholders
Dividends are recognised in the retained earnings reserve in the year in which they are declared.

The cost of repurchasing the Group's own equity shares for cancellation ("share buy-backs") is recorded in retained earnings. In addition, the nominal cost of shares repurchased is deducted from share capital and a matching credit is recorded in the capital redemption reserve.

r) Earnings per share
Basic earnings or loss per share represents the profit or loss for the year, divided by the weighted average number of ordinary shares in issue during the year, excluding the weighted average number of ordinary shares purchased by the Group and held in the Group's ESOP during the year to satisfy employee share awards.

Diluted earnings or loss per share represents the profit or loss for the year, divided by the weighted average number of ordinary shares in issue during the year, excluding the weighted average number of ordinary shares purchased by the Group and held in the Group's ESOP during the year to satisfy employee share awards, plus the weighted average number of dilutive shares resulting from share options where the inclusion of these would not be antidilutive.

s) Foreign currency translation
The Group's functional currency and presentational currency is pounds sterling. Trading activities denominated in foreign currencies are recorded in pounds sterling at the applicable monthly exchange rates. Monetary assets, liabilities and commitments denominated in foreign currencies at the balance sheet date are reported at the rates of exchange at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated to pounds sterling at the exchange rate prevailing at the date of the initial transaction. Gains and losses from the retranslation of assets and liabilities are included net in profit for the year, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

The assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the applicable monthly average exchange rates. Any exchange differences arising are classified as equity and transferred to other reserves.

t) Reportable segments
IFRS 8 "Operating Segments" requires the segment information presented in the financial statements to be that which is used internally by the chief operating decision maker to evaluate the performance of the business and decide how to allocate resources. The Group has identified the Board of Directors as its chief operating decision maker and as the internal reporting reviewed by the Board focuses on the operations of the Group as a whole and does not identify individual operating segments, the Group has only one reportable segment.

u) Accounting Standards, interpretations and amendments to existing standards that are not yet effective
The Group has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for our accounting periods beginning on or after 1 July 2010 or later periods. These new pronouncements are listed below:

- Improvements to IFRSs 2009 – various standards (effective 1 January 2010)
- Amendments to IFRS 2 "Share Based Payment – Group Cash-settled Share-based Payment Transactions" (effective 1 January 2010)
- Amendment to IAS 32 "Financial Instruments: Presentation – Classification of Rights Issues" (effective 1 February 2010)

- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective 1 July 2010)
- Improvements to IFRSs 2010 – various standards (effective 1 July 2010 and 1 January 2011)
- IAS 24 Revised (2009) "Related Party Disclosures" (effective 1 January 2010)
- Amendment to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective 1 January 2011)
- IFRS 9 "Financial Instruments" (effective 1 January 2013)

The Directors are currently evaluating the impact of the adoption of these standards, amendments and interpretations in future periods.

v) Critical accounting policies and the use of judgment

Certain accounting policies are considered to be critical to the Group. An accounting policy is considered to be critical if its selection or application materially affects the Group's financial position or results. The Directors are required to use their judgment in order to select and apply the Group's critical accounting policies. Below is a summary of the Group's critical accounting policies and details of the key areas of judgment that are exercised in their application.

(i) Revenue (see note 2)

- Selecting the appropriate timing for, and amount of, revenue to be recognised requires judgment. This may involve estimating the fair value of consideration before it is received. When the Group sells a set-top box, installation or service and a subscription in one bundled transaction, the total consideration from the arrangement is allocated to each element based on its relative fair value. The fair value of each individual element is determined using vendor specific or third party evidence. The amount of revenue the Group recognises for delivered elements is limited to the cash received.
- Judgment is also required in evaluating the likelihood of collection of customer debt after revenue has been recognised. This evaluation requires estimates to be made, including the level of provision to be made for amounts with uncertain recovery profiles. Provisions are based on historical trends in the percentage of debts which are not recovered, or on more detailed reviews of individually significant balances.

(ii) Taxation (see note 9)

- The Group's tax charge is the sum of the total current and deferred tax charges. The calculation of the Group's total tax charge necessarily involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process.
- Accruals for tax contingencies require management to make judgments and estimates in relation to tax audit issues and exposures. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Tax benefits are not recognised unless it is probable that the tax positions will be sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of the likely resolution of the issue through negotiation and/or litigation.
- The amounts recognised in the consolidated financial statements in respect of each matter are derived from the Group's best estimation and judgment, as described above. However, the inherent uncertainty regarding the outcome of these items means the eventual resolution could differ from the provision and in such event the Group would be required to make an adjustment in a subsequent period which could have a material impact on the Group's profit and loss and/or cash position.

(iii) Goodwill (see note 12)

- Judgment is required in determining the fair value of identifiable assets, liabilities and contingent assets assumed in a business combination. Calculating the fair values involves the use of significant estimates and assumptions, including expectations about future cash flows, discount rates and the lives of assets following purchase.
- Judgment is also required in evaluating whether any impairment loss has arisen against the carrying amount of goodwill. This may require calculation of the recoverable amount of cash generating units to which the goodwill is associated. Such a calculation may involve estimates of the net present value of future forecast cash flows and selecting an appropriate discount rate. Alternatively, it may involve a calculation of the fair value less costs to sell of the applicable cash generating unit.

(iv) Intangible assets and property, plant and equipment (see notes 13 and 14)

- The assessment of the useful economic lives of these assets requires judgment. Depreciation and amortisation is charged to the income statement based on the useful economic life selected. This assessment requires estimation of the period over which the Group will benefit from the assets.
- Determining whether the carrying amount of these assets has any indication of impairment also requires judgment. If an indication of impairment is identified, further judgment is required to assess whether the carrying amount can be supported by the net present value of future cash flows forecast to be derived from the asset. This forecast involves cash flow projections and selecting the appropriate discount rate.
- Assessing whether assets meet the required criteria for initial capitalisation requires judgment. This requires a determination of whether the assets will result in future benefits to the Group. In particular, internally generated intangible assets must be assessed during the development phase to identify whether the Group has the ability and intention to complete the development successfully.

(v) Available-for-sale investments (see note 16)

- The key areas of judgment in respect of available-for-sale investments are the assessment of whether there is objective evidence that a loss event has occurred after initial recognition of an available-for-sale investment, and whether such a loss event has a reliably measurable impact on the estimated future cash flows of the investment. At each balance sheet date, management considers whether there is objective evidence that a loss event has occurred and whether it has had an impact on the estimated future cash flows of the available-for-sale

Notes to the consolidated financial statements
continued

1. Accounting policies (continued)

investment. If a loss event has occurred, management would then consider whether an impairment loss has occurred and the quantum of that loss.

- As at 30 June 2010, the Group's available-for-sale investments included a material investment in ITV plc ("ITV") which was impaired in previous periods. The factors management considered in determining whether an impairment loss in ITV had occurred included observable data about the estimated future cash flows of ITV based on ITV's publicly available financial reporting and announcements, publicly available information from financial commentators about ITV and the market in which it operates, the historical performance of ITV's share price, and the regulatory environment affecting ITV and the Group. The ITV impairment losses accounted for have been determined with reference to ITV's closing equity share price at 27 March 2009, the last trading day of the Group's third fiscal quarter in fiscal 2009. All subsequent increases in the fair value of the ITV investment above this impaired value have been recorded in the available-for-sale reserve (see accounting policy h).

(vi) Deferred tax (see note 17)

- The key area of judgment in respect of deferred tax accounting is the assessment of the expected timing and manner of realisation or settlement of the carrying amounts of assets and liabilities held at the balance sheet date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deferred tax assets can be utilised.

(vii) Programming inventory (see note 18)

- The Group has several main types of programming inventory: Sport, News, Movies and General entertainment, as detailed in accounting policy (g)(i).
- The cost of acquired Sport and News rights is recognised in the income statement on first broadcast or, where Sports rights are for multiple seasons or competitions, Sports rights are amortised on a straight-line basis across the season or competition. Acquired movie rights are amortised on a straight-line basis over the period of the transmission rights. These treatments best represent our estimate of the benefits received from the acquired rights.
- The key area of accounting for programming inventory requiring judgment is the assessment of the appropriate profile over which to amortise general entertainment programming. This assessment requires the Group to form an expectation of the number of times a programme will be broadcast, and the relative value associated with each broadcast.
- In order to perform this assessment, the Group considers the following factors:

  The period over which the programme is expected to be shown on the Group's channels. This is usually based on a combination of the actual period specified in the contract for the programme rights, and the initial expectation of when repeat broadcasts will be scheduled.

  The alternative programming available to the Group for scheduling within this period. This consideration provides the most appropriate information in order to estimate how frequently individual programmes will be shown during the period in which the Group holds their Broadcast rights.

  The potential benefits associated with scheduling programming. Certain high-profile or high-quality programming titles have additional value to the Group, as they attract new customers and encourage retention of existing customers. As such, these programmes are able to retain more value throughout their broadcast runs than would be indicated when considering the expected viewing numbers alone.

  Expectations as to the number of viewers a programme is likely to achieve for each individual broadcast over the contractual broadcast period. The number of viewers per broadcast directly influences advertising revenue for channels, although this consideration is partly influenced by the Group's assessment of the potential impact of the publicly available information on its competitors' scheduling intentions against planned broadcasts.

2. Revenue

	2010 £m	2009 £m
Retail subscription(i)	4,761	4,177
Wholesale subscription	238	206
Advertising	319	308
Easynet	203	202
Installation, hardware and service	174	235
Other	217	231
	5,912	**5,359**

(i) Included within retail subscription revenue for the year ended 30 June 2009 is £36 million of additional revenue representing amounts invoiced in prior years, which did not meet revenue recognition criteria under IFRS until March 2009.

To provide a more relevant presentation, management has chosen to re-analyse the revenue categories from those previously reported. Easynet revenue is shown separately and other revenue now principally includes income from Sky Bet, technical platform service revenue and our online portal.

Revenue arises from goods and services provided to the UK, with the exception of £483 million (2009: £443 million) which arises from services provided to other countries.

3. Operating expense

	2010 £m	2009 £m
Programming	1,902	1,750
Direct networks	518	373
Transmission, technology and fixed networks	374	353
Marketing	1,118	907
Subscriber management and supply chain(i)(ii)	655	662
Administration(i)(iii)	518	501
	5,085	**4,546**

(i) Included within operating expense for the year ended 30 June 2010 is £32 million (2009: nil) of expense relating to a restructuring exercise of which £22 million was recorded within subscriber management and supply chain costs and related to the impairment of assets associated with Picnic (the potential launch of a subscription television service on DTT) and £10 million was recorded within administration costs and related to restructuring costs which comprise principally redundancy payments.

(ii) Included within subscriber management and supply chain costs for the year ended 30 June 2010 is a £5 million credit (2009: nil) related to the cancellation of accounts payable on settlement of the claim against EDS.

(iii) Included within administration costs for the year ended 30 June 2010 is £1 million (2009: £3 million) of expense relating to legal costs incurred on the Group's claim against EDS.

To provide a more relevant presentation, management has chosen to analyse further the operating expense categories from those previously reported and has split Transmission, technology and network costs into Direct network costs (costs directly related to the supply of broadband and telephony services to our consumer and business-to-business customers) and Transmission, technology and fixed network costs.

4. Litigation settlement income and investment income on litigation settlement

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

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

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

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

Notes to the consolidated financial statements
continued

5. Investment income and finance costs

	2010 £m	2009 £m
Investment income		
Cash, cash equivalents and short-term deposits	3	30
Dividends receivable from available-for-sale investments	–	5
	3	**35**

	2010 £m	2009 £m
Finance costs		
– Interest payable and similar charges		
£750 million/£1 billion Revolving Credit Facilities ("RCF")	(11)	(3)
Guaranteed Notes (see note 22)	(116)	(186)
Finance lease interest	(8)	(7)
	(135)	**(196)**
– Other finance income (expense)		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	16	(21)
Remeasurement of programming-related derivative financial instruments (not qualifying for hedge accounting)	(1)	(3)
Gain arising on derivatives in a designated fair value hedge accounting relationship	36	46
Loss arising on adjustment for hedged item in a designated fair value hedge accounting relationship	(38)	(46)
	13	**(24)**
	(122)	**(220)**

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

6. Impairment of available-for-sale investment and profit on disposal of available-for-sale investment

The Group's investment in ITV is carried at fair value. The fair value of ITV is determined with reference to its equity share price at the balance sheet date. An impairment in the carrying value was first recorded at 31 December 2007, due to the significant and prolonged decline in the equity share price. In accordance with IFRS, the Group has continued to review that carrying value and recognised an impairment loss of £191 million in the year ended 30 June 2009. This impairment loss was determined with reference to ITV's closing equity share price of 20.0 pence at 27 March 2009, the last trading day of the Group's third fiscal quarter in fiscal 2009. In line with IFRS, all subsequent increases in the fair value of the ITV investment above this impaired value have been recorded in the available-for-sale reserve.

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

At 25 June 2010, the last trading day of the Group's financial year, ITV's closing equity share price was 53.5 pence. In accordance with IAS 39, the effect of any further decline in the value of the equity share price of ITV below the price of 20.0 pence as at 27 March 2009 will be recognised in the income statement at the relevant future balance sheet date.

7. Profit before taxation

Profit before taxation is stated after charging (crediting):

	2010 £m	2009 £m
Cost of inventories recognised as an expense	1,716	1,547
Depreciation and impairment of property, plant and equipment	173	173
Amortisation and impairment of intangible assets	189	118
Rentals on operating leases and similar arrangements	47	47
Sub-lease rentals received on operating leases	(1)	(1)

Consolidated non-current assets outside the UK were £29 million (2009: £33 million).

Foreign exchange

Foreign exchange losses recognised in the income statement during the year amounted to £3 million (2009: £10 million).

Audit fees

An analysis of auditors' remuneration is as follows:

	2010 £m	2009 £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**1**	**1**
Fees payable to the Company's auditors for other services:		
The audit of the Company's subsidiaries pursuant to legislation	1	1
Total audit fees	**2**	**2**
Other services pursuant to legislation	1	1
Total non-audit fees	**1**	**1**
Total auditor remuneration	**3**	**3**

Amounts paid to auditors for non audit-related fees include tax fees of £0.2 million (2009: £0.5 million), the interim review fee of £0.2 million (2009: £0.2 million) and other audit related services of £0.2 million (2009: £0.3 million).

8. Employee benefits and key management compensation

a) Group employee benefits

	2010 £m	2009 £m
Wages and salaries	631	572
Social security costs	76	60
Costs of employee share option schemes(i)	32	50
Contributions to the Group's pension schemes(ii)	27	27
	766	**709**

(i) *A £35 million charge relates to equity-settled share-based payments (2009: £48 million charge) and a credit of £3 million relates to cash-settled share-based payments (2009: £2 million charge). At 30 June 2010, the total expense relating to non-vested awards not yet recognised was £42 million which is expected to be recognised over a weighted average period of 1 year. At 30 June 2010, £5 million was recognised as liabilities arising from share-based payment transactions (2009: £8 million).*

(ii) *The Group operates defined contribution pension schemes. The pension charge for the year represents the cost of contributions payable by the Group to the schemes during the year. The amount payable to the schemes by the Group at 30 June 2010 was £3 million (2009: £4 million).*

The average monthly number of full-time equivalent persons (including temporary employees) employed by the Group during the year was as follows:

	2010 Number	2009 Number
Channels and services	2,670	2,628
Customer service, sales and marketing	9,463	8,671
Transmission and technology	2,650	2,276
Management and administration	1,656	1,347
	16,439	**14,922**

There are approximately 538 (2009: 347) temporary staff included within the average number of full-time equivalent persons employed by the Group.

Notes to the consolidated financial statements
continued

8. Employee benefits and key management compensation (continued)
b) Key management compensation (see note 30d)

	2010 £m	2009 £m
Short-term employee benefits	5	4
Share-based payments	4	7
	9	**11**

Post-employment benefits were less than £1 million (2009: less than £1 million).

9. Taxation
a) Taxation recognised in the income statement

	2010 £m	2009 £m
Current tax expense		
Current year	305	191
Adjustment in respect of prior years	(23)	10
Total current tax charge	**282**	**201**
Deferred tax expense		
Origination and reversal of temporary differences	9	6
Adjustment in respect of prior years	4	(10)
Total deferred tax charge (credit)	**13**	**(4)**
Taxation	**295**	**197**

Taxation relates to a £288 million UK corporation tax charge (2009: £190 million) and a £7 million Luxembourg corporation tax charge (2009: £7 million).

b) Deferred tax recognised directly in equity

	2010 £m	2009 £m
Deferred tax (credit) charge relating to share-based payments	(9)	3
Deferred tax charge relating to cash flow hedges	20	7
	11	**10**

c) Reconciliation of effective tax rate
The tax expense for the year is lower (2009: higher) than the expense that would have been charged using the standard rate of corporation tax in the UK (28%) applied to profit before tax. The applicable enacted or substantially enacted rate of UK corporation tax for the year was 28% (2009: 28%). The differences are explained below:

	2010 £m	2009 £m
Profit before tax	1,173	456
Profit before tax multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	328	128
Effects of:		
Non-deductible expense(i)	18	65
Deferred tax write off following change in legislation	–	6
Tax exempt income	–	(1)
Tax exempt gain on disposal of available-for-sale investments(ii)	(32)	–
Over provision in respect of prior years	(19)	(1)
Taxation	**295**	**197**

(i) Included within non-deductible expense in the year ended 30 June 2009 is the tax effect of the impairment in available-for-sale investments relating to the Group's investment in ITV, see note 6.

(ii) This is the tax effect of the gain on disposal of the available-for-sale investments relating to the Group's investment in ITV, see note 6.

10. Earnings per share

The weighted average number of shares for the year was:

	2010 Millions of shares	2009 Millions of shares
Ordinary shares	1,753	1,753
ESOP trust ordinary shares	(10)	(13)
Basic shares	**1,743**	**1,740**
Dilutive ordinary shares from share options	11	13
Diluted shares	**1,754**	**1,753**

The calculation of diluted earnings per share excludes 11 million share options (2009: 21 million), which could potentially dilute earnings per share in the future, but which have been excluded from the calculation of diluted earnings per share as they are anti-dilutive in the year.

Basic and diluted earnings per share are calculated by dividing the profit or loss for the year into the weighted average number of shares for the year. In order to provide a measure of underlying performance, management have chosen to present an adjusted profit for the year which excludes items that may distort comparability. Such items arise from events or transactions that fall within the ordinary activities of the Group but which management believes should be separately identified to help explain underlying performance.

	2010 £m	2009 £m
Reconciliation from profit for the year to adjusted profit for the year		
Profit for the year	878	259
Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness (see note 5)	(13)	24
Litigation settlement income relating to claim against EDS (see note 4)	(269)	–
Investment income on litigation settlement (see note 4)	(49)	–
Legal costs relating to claim against EDS (see note 3)	1	3
Cancellation of accounts payable on settlement of claim against EDS (see note 3)	(5)	–
Cost relating to restructuring exercise (see note 3)	32	–
Receipt on closure of joint venture (see note 15)	(3)	–
Profit on disposal of available-for-sale investment (see note 6)	(115)	–
Impairment of available-for-sale investment (see note 6)	–	191
Recognition of deferred revenue (see note 2)	–	(36)
Deferred tax write off following change in legislation	–	6
Tax effect of above items	85	4
Adjusted profit for the year	**542**	**451**

	2010 pence	2009 pence
Earnings per share from profit for the year		
Basic	50.4	14.9
Diluted	50.1	14.8
Adjusted earnings per share from adjusted profit for the year		
Basic	31.1	25.9
Diluted	30.9	25.7

Notes to the consolidated financial statements
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11. Dividends

	2010 £m	2009 £m
Dividends declared and paid during the year		
2008 Final dividend paid: 9.625p per ordinary share	–	167
2009 Interim dividend paid: 7.50p per ordinary share	–	131
2009 Final dividend paid: 10.10p per ordinary share	176	–
2010 Interim dividend paid: 7.875p per ordinary share	138	–
	314	**298**

The 2010 final dividend proposed is 11.525 pence per ordinary share being £201 million. The dividend was not declared at the balance sheet date and is therefore not recognised as a liability as at 30 June 2010.

Dividends are paid between Group companies out of profits available for distribution subject to, inter alia, the provisions of the companies' articles of association and the Companies Act 2006. There are restrictions over the distribution of any profits which are not generated from external cash receipts as defined in Technical Release 1/09, issued by the Institute of Chartered Accountants in England and Wales. All dividends were paid out of profits available for distribution. The ESOP has waived its rights to dividends.

12. Goodwill

	2010 £m	2009 £m
Carrying value	**852**	**852**

Goodwill has principally arisen from the Group's purchases of the Sports Internet Group ("SIG"), British Interactive Broadcasting ("BiB"), Easynet Group Limited ("Easynet"), 365 Media and Amstrad. Impairment reviews were performed on these goodwill balances at 30 June 2010, which did not indicate impairment.

The amount of goodwill deductible for tax purposes is nil (2009: nil). Goodwill, allocated by cash generating unit, is analysed as follows:

	2010 £m	2009 £m
Broadcast(i)	673	673
Betting and gaming(ii)	149	149
Easynet Enterprise(iii)	30	30
	852	**852**

Recoverable amounts for the cash generating units were calculated on the basis of value in use or recoverable amount as appropriate, using cash flows calculated for the next three or five years as forecast by management. A long-term growth rate of 3% was applied in order to extrapolate cash flow projections beyond this period, based on future industry expectations. The cash flows were discounted using a pre-tax discount rate of 10.4% (2009: 11.1%).

In determining the applicable discount rate, management applied judgment in respect of several factors, which included, inter alia: assessing the risk attached to future cash flows and making reference to the capital asset pricing model (the "CAPM"). Management gave consideration to the selection of appropriate inputs to the CAPM, which included the risk free rate, the equity risk premium and a measure of systematic risk. Management also considers capital structure and an appropriate cost of debt in arriving at the discount rate.

i) Broadcast
The Broadcast unit includes goodwill arising from the purchase of Easynet's UK broadband network assets, Easynet's UK residential business, 365 Media's content business, BiB and Amstrad. The key assumptions on which forecast five year cash flows of the Broadcast unit were based include the number of gross DTH subscriber additions, the rate of DTH churn, the average revenue per subscriber, acquisition costs per subscriber and anticipated changes in the product mix and marketing mix of the broadcast business. The values assigned to each of these assumptions were determined based on the extrapolation of historical trends within the Group, and external information on expected future trends in the UK and Ireland entertainment and communications industry.

ii) Betting and gaming
The Betting and gaming unit includes goodwill arising from the purchase of SIG and 365 Media's betting businesses. The key assumptions, on which forecast five year cash flows were based, include the number of weekly unique users, the number of bets placed per user per week, the average stake per user per week and the average spend per active user per week. The values assigned to each of these assumptions were determined based on an extrapolation of historical trends within the unit, and external information on expected future trends in betting and gaming.

iii) Easynet Enterprise

The Easynet Enterprise unit includes goodwill arising from the purchase of Easynet's enterprise broadband business in the UK and other European countries. The key assumptions on which forecast three year cash flows were based include the number of Easynet Enterprise customers, the average revenue per customer and the operating margin generated per customer. The values assigned to each of these assumptions were determined based on an extrapolation of historical trends within the unit, and external information on expected future trends in the enterprise broadband industry.

13. Intangible assets

	Internally generated intangible assets £m	Software development (external) £m	Software licences £m	Other intangible assets £m	Internally generated intangible assets not yet available for use £m	Other intangible assets not yet available for use £m	Total £m
Cost							
At 1 July 2008	91	237	89	41	4	102	564
Foreign exchange movements	–	–	1	–	–	–	1
Additions	34	20	19	35	13	39	160
Disposals	(5)	(5)	(8)	(5)	–	–	(23)
Transfers	4	50	–	1	–	(55)	–
At 30 June 2009	**124**	**302**	**101**	**72**	**17**	**86**	**702**
Foreign exchange movements	–	–	(1)	–	–	–	(1)
Additions	51	12	19	41	18	38	179
Disposals	(6)	(10)	–	–	–	(22)	(38)
Transfers	5	1	1	–	(3)	(3)	1
At 30 June 2010	**174**	**305**	**120**	**113**	**32**	**99**	**843**
Amortisation							
At 1 July 2008	35	160	54	12	–	–	261
Foreign exchange movements	–	–	1	–	–	–	1
Amortisation for the year	27	50	15	25	–	–	117
Impairments	1	–	–	–	–	–	1
Disposals	(5)	(5)	(8)	(5)	–	–	(23)
At 30 June 2009	**58**	**205**	**62**	**32**	**–**	**–**	**357**
Foreign exchange movements	–	–	(1)	–	–	–	(1)
Amortisation for the year	37	59	20	47	–	–	163
Impairments	3	1	–	–	–	22	26
Disposals	(6)	(10)	–	–	–	(22)	(38)
At 30 June 2010	**92**	**255**	**81**	**79**	**–**	**–**	**507**
Carrying amounts							
At 1 July 2008	56	77	35	29	4	102	303
At 30 June 2009	66	97	39	40	17	86	345
At 30 June 2010	**82**	**50**	**39**	**34**	**32**	**99**	**336**

The Group's internally generated intangible assets relate to software development associated with our customer management systems and set-top boxes. The Group's other intangible assets mainly include copyright licences, customer lists and relationships, and patents and brands acquired in business combinations.

The estimated future amortisation charge on intangible assets with finite lives for each of the next five years is set out below. It is likely that future amortisation will vary from the figures below as the estimate does not include the impact of any future investments, disposals or capital expenditure.

	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m
Estimated amortisation charge	112	90	58	31	21

For intangible assets acquired in business combinations the average amortisation period is 3 years (2009: 3 years).

Notes to the consolidated financial statements
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14. Property, plant and equipment

	Land and freehold buildings(i)(ii) £m	Leasehold improvements £m	Equipment, furniture and fixtures £m	Assets not yet available for use £m	Total £m
Cost					
At 1 July 2008	108	72	914	58	1,152
Foreign exchange movements	–	–	5	–	5
Additions	25	5	85	136	251
Disposals	(5)	–	(74)	(2)	(81)
Transfers	–	–	1	(1)	–
At 30 June 2009	**128**	**77**	**931**	**191**	**1,327**
Foreign exchange movements	–	–	(4)	–	(4)
Additions	58	2	152	64	276
Disposals	–	(6)	(69)	(3)	(78)
Transfers	–	–	30	(31)	(1)
At 30 June 2010	**186**	**73**	**1,040**	**221**	**1,520**
Depreciation					
At 1 July 2008	20	22	388	–	430
Foreign exchange movements	–	–	3	–	3
Depreciation	4	7	154	–	165
Impairments	1	–	5	2	8
Disposals	(3)	–	(73)	(2)	(78)
At 30 June 2009	**22**	**29**	**477**	**–**	**528**
Foreign exchange movements	–	–	(4)	–	(4)
Depreciation	4	4	160	–	168
Impairments	–	–	2	3	5
Disposals	–	(6)	(67)	(3)	(76)
At 30 June 2010	**26**	**27**	**568**	**–**	**621**
Carrying amounts					
At 1 July 2008	88	50	526	58	722
At 30 June 2009	106	48	454	191	799
At 30 June 2010	**160**	**46**	**472**	**221**	**899**

(i) The amounts shown include assets held under finance leases with a net book value of £4 million (2009: £4 million). The cost of these assets was £9 million (2009: £9 million) and the accumulated depreciation was £5 million (2009: £5 million). Depreciation charged during the year on such assets was nil (2009: £1 million).

(ii) Depreciation was not charged on £88 million of land (2009: £32 million).

15. Investments in joint ventures and associates

A list of the Group's significant investments in joint ventures and associates, including the name, country of incorporation and proportion of ownership interest is given in note 31 to the consolidated financial statements.

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

	2010 £m	2009 £m
Share of net assets:		
At 1 July	135	114
Movement in net assets		
– Funding, net of repayments	1	3
– Dividends received	(30)	(20)
– Share of profits[(i)]	32	19
– Exchange differences on translation of foreign joint ventures and associates	11	19
At 30 June	**149**	**135**

(i) Included within the share of profits for the year ended 30 June 2010 is £3 million (2009: nil) related to an amount received on the closure of one of the Group's joint ventures.

The Group's share of any capital commitments and contingent liabilities of associates and joint ventures is shown in note 28.

a) Investments in joint ventures

Representing the Group's share of each joint venture:

	2010 £m	2009 £m
Non-current assets	6	4
Current assets	46	45
Current liabilities	(24)	(22)
Non-current liabilities	(6)	(1)
Shareholders' equity	**22**	**26**
Revenue	70	68
Expense	(51)	(55)
Taxation	(4)	(4)
Share of profit from joint ventures	**15**	**9**

b) Investments in associates

Representing a 100% share of each associate:

	2010 £m	2009 £m
Total assets	233	343
Total liabilities	(60)	(52)
Shareholders' equity	**173**	**291**
Revenue[(i)]	214	172
Profit[(i)]	64	45

(i) Revenue and profit numbers are provided for the full year ended 30 June 2010 and 30 June 2009.

16. Available-for-sale investments

	2010 £m	2009 £m
Investment in ITV at cost	946	946
Impairment of ITV investment	(807)	(807)
Unrealised gain on ITV investment	98	96
Realised gain on ITV investment	115	–
Part disposal of ITV investment	(196)	–
Fair value of ITV investment	**156**	**235**
Other investments at cost	26	26
	182	**261**

Notes to the consolidated financial statements
continued

16. Available-for-sale investments (continued)

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

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

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

The Group holds certain unquoted equity investments that are carried at cost less impairment. The fair value of these investments is not considered to differ significantly from their carrying value.

17. Deferred tax

i) Recognised deferred tax (liabilities) assets

	Fixed asset temporary differences £m	Tax losses £m	Short-term temporary differences £m	Share-based payments temporary differences £m	Financial instrument temporary differences £m	Total £m
At 1 July 2008	(9)	7	8	18	(1)	23
Credit (charge) to income	7	(5)	(2)	7	(3)	4
Charge to equity	–	–	–	(3)	(7)	(10)
At 30 June 2009	(2)	2	6	22	(11)	17
(Charge) credit to income	(6)	(2)	–	(6)	1	(13)
(Charge) credit to equity	–	–	–	9	(20)	(11)
At 30 June 2010	**(8)**	**–**	**6**	**25**	**(30)**	**(7)**

Deferred tax assets have been recognised at 30 June 2010 and 30 June 2009 on the basis that, from management's current forecast of the Group's entities, it is probable that there will be suitable taxable profits against which these assets can be utilised. Tax losses are treated as unrecognised deferred tax assets if it is not considered probable that suitable future taxable profits will arise. During the year, any tax losses suffered by UK entities have been relieved against taxable profits in other UK entities in the Group.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which they reverse. The rate enacted or substantially enacted for the relevant periods of reversal is 28% in the year ended 30 June 2010 (2009: 28%).

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2010 £m	2009 £m
Deferred tax assets	31	30
Deferred tax liabilities	(38)	(13)
	(7)	**17**

ii) Unrecognised deferred tax assets

	2010 £m	2009 £m
Tax losses arising from trading	338	341
Tax losses arising from capital disposals and provisions against investments	403	406
	741	**747**

Deferred tax assets have not been recognised in respect of the items above because it is not probable that future taxable profits will be available against which the Group can utilise the losses.

At 30 June 2010, a deferred tax asset of £38 million (2009: £46 million) principally arising from UK losses in the Group, has not been recognised. These losses can only be offset against taxable profits generated in the entities concerned. There is currently insufficient evidence to support the recognition of a deferred tax asset relating to these losses. The UK trading losses can be carried forward indefinitely.

At 30 June 2010, a deferred tax asset of £300 million (2009: £295 million) has not been recognised in respect of overseas trading losses on the basis that it is not probable that these temporary differences will be utilised. These losses include £249 million (2009: £249 million) with respect to the Group's German holding company's former investment in KirchPayTV and £51 million (2009: £46 million) with respect to the Group's holdings in Easynet's overseas subsidiaries. In respect of the unrecognised deferred tax of £300 million on the overseas trading losses, £282 million relates to losses that can be carried forward indefinitely and £18 million relates to losses that have expiry dates between 2011 and 2029.

At 30 June 2010, a deferred tax asset of £391 million (2009: £391 million) has not been recognised in respect of potential capital losses related to the Group's former investment in KirchPayTV, on the basis that utilisation of these temporary differences is not probable. At 30 June 2010, the Group also has capital losses with a tax value estimated to be in excess of £12 million (2009: £15 million) including impairment of a football club and other investments, which have not been recognised as a deferred tax asset, on the basis that it is not probable that they will be utilised. The capital losses can be carried forward indefinitely.

18. Inventories

	2010 £m	2009 £m
Television programme rights	255	274
Set-top boxes and related equipment	73	97
Other inventories	15	15
	343	**386**

At 30 June 2010, 91% (2009: 91%) of the television programme rights and 100% (2009: 100%) of other inventories is expected to be recognised in the income statement within 12 months.

19. Trade and other receivables

	2010 £m	2009 £m
Gross trade receivables	303	297
Less: provision for impairment of receivables	(153)	(118)
Net trade receivables	**150**	**179**
Amounts receivable from joint ventures and associates	6	5
Amounts receivable from other related parties	3	–
Prepayments	197	221
Accrued income	135	116
VAT	18	52
Other	29	40
Current trade and other receivables	**538**	**613**
Non-current prepayments	18	21
Total trade and other receivables	**556**	**634**

Included within current trade and other receivables is nil (2009: £54 million) which is due in more than one year.

The ageing of the Group's net trade receivables which are past due but not impaired is as follows:

	2010 £m	2009 £m
Up to 30 days past due date	50	56
30 to 60 days past due date	6	11
60 to 120 days past due date	5	7
More than 120 days past due date	4	5
	65	**79**

The Directors consider that the carrying amount of trade and other receivables approximates to their fair values. The Group is exposed to credit risk on its trade and other receivables, however the Group does not have any significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers. Trade receivables principally comprise amounts outstanding from subscribers, advertisers and other customers.

Provisions for doubtful debts

	2010 £m	2009 £m
Balance at beginning of year	118	84
Amounts utilised	(5)	(7)
Income statement charge	40	41
Balance at end of year	**153**	**118**

20. Trade and other payables

	2010 £m	2009 £m
Trade payables(i)	419	407
Amounts owed to joint ventures and associates	4	3
Amounts owed to other related parties	70	69
VAT	105	93
Accruals	609	586
Deferred income	251	269
Other	68	65
	1,526	**1,492**

(i) Included within trade payables are £155 million (2009: £143 million) of US dollar-denominated programme payables.

The Directors consider that the carrying amount of trade and other payables approximates to their fair values. Trade payables principally comprise amounts outstanding for programming purchases and ongoing costs.

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21. Provisions

	At 1 July 2008 £m	Provided during the year £m	Utilised during the year £m	At 1 July 2009 £m	Provided during the year £m	Utilised during the year £m	At 30 June 2010 £m
Current liabilities							
Restructuring provision(i)	6	–	(6)	–	7	–	7
Acquired and acquisition related provisions(ii)	14	8	(8)	14	4	(3)	15
Other provisions(iii)	7	1	(4)	4	2	(1)	5
	27	**9**	**(18)**	**18**	**13**	**(4)**	**27**
Non-current liabilities							
Acquired and acquisition related provisions(ii)	8	–	(7)	1	–	(1)	–
Other provisions(iv)	14	–	(3)	11	2	(2)	11
	22	**–**	**(10)**	**12**	**2**	**(3)**	**11**

(i) During the year ended 30 June 2010 the Group provided £7 million for the expected costs of a restructuring exercise undertaken.

(ii) During the year ended 30 June 2008 the Group took control of Amstrad. Following the purchase method of accounting the Group has recognised at fair value both the provisions and contingent liabilities acquired in the business combination. The provisions recognised primarily relate to warranties and repair costs, the settlement of outstanding customer claims and the fair value of a contingent liability in respect of importation duty on set-top boxes, see note 28.

(iii) Included in other provisions are amounts provided for onerous contracts for property leases, maintenance and legal disputes. The timing of the cash flows for onerous property leases and maintenance are dependent on the terms of the remaining leases. The timing of the cash flows for legal disputes cannot be reasonably determined.

(iv) Included within non-current other provisions are onerous property leases. The timing of the cash flows are dependent on the terms of the leases, but are expected to continue up to August 2016.

22. Borrowings and non-current other payables

	2010 £m	2009 £m
Current borrowings		
£100 million of 7.750% Guaranteed Notes repayable in July 2009(i)	–	100
US$600 million of 8.200% Guaranteed Notes repayable in July 2009(i)	–	363
Loan Notes(ii)	–	2
	–	**465**
Non-current borrowings		
US$750 million of 5.625% Guaranteed Notes repayable in October 2015(i)	533	477
£400 million of 5.750% Guaranteed Notes repayable in October 2017(i)	407	404
US$750 million of 6.100% Guaranteed Notes repayable in February 2018(i)	511	459
US$582.8 million of 9.500% Guaranteed Notes repayable in November 2018(i)	413	367
£300 million of 6.000% Guaranteed Notes repayable in May 2027(i)	295	295
US$350 million of 6.500% Guaranteed Notes repayable in October 2035(i)	229	206
Obligations under finance leases(iii)	70	71
	2,458	**2,279**
Non-current other payables		
Amounts owed to other related parties	3	5
Accruals	11	18
Deferred income	38	43
	52	**66**

(i) Guaranteed Notes

At 30 June 2010, the Group had in issue the following Guaranteed Notes, which were issued by the Company:

		Interest Rate Hedging		Hedged Interest Rates	
	Hedged Value* £m	Fixed £m	Floating £m	Fixed	Floating
US$750 million of 6.100% Guaranteed Notes repayable in February 2018	387	290	97	6.829%	6m LIBOR + 1.892%
US$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	389	–	389	N/A	6m LIBOR + 5.542%
£300 million of 6.000% Guaranteed Notes repayable in May 2027	300	300	–	6.000%	N/A
	1,076	**590**	**486**		

At 30 June 2010, the Group had in issue the following Guaranteed Notes, which were issued by BSkyB Finance UK plc:

		Interest Rate Hedging		Hedged Interest Rates	
	Hedged Value* £m	Fixed £m	Floating £m	Fixed	Floating
US$750 million of 5.625% Guaranteed Notes repayable in October 2015	428	171	257	5.427%	6m LIBOR + 0.698%
£400 million of 5.750% Guaranteed Notes repayable in October 2017	400	350	50	5.750%	6m LIBOR – 0.229%
US$350 million of 6.500% Guaranteed Notes repayable in October 2035	200	200	–	5.826%	N/A
	1,028	**721**	**307**		

At 30 June 2009, the Group had in issue the following Guaranteed Notes, which were issued by the Company:

		Interest Rate Hedging		Hedged Interest Rates	
	Hedged Value* £m	Fixed £m	Floating £m	Fixed	Floating
£100 million of 7.750% Guaranteed Notes repayable in July 2009	100	100	–	7.750%	N/A
US$600 million of 8.200% Guaranteed Notes repayable in July 2009	380	254	126	7.653%	6m LIBOR + 2.829%
US$750 million of 6.100% Guaranteed Notes repayable in February 2018	387	290	97	6.829%	6m LIBOR + 1.892%
US$600 million of 9.500% Guaranteed Notes repayable in November 2018	401	–	401	N/A	6m LIBOR + 5.542%
£300 million of 6.000% Guaranteed Notes repayable in May 2027	300	300	–	6.000%	N/A
	1,568	**944**	**624**		

At 30 June 2009, the Group had in issue the following Guaranteed Notes, which were issued by BSkyB Finance UK plc:

		Interest Rate Hedging		Hedged Interest Rates	
	Hedged Value* £m	Fixed £m	Floating £m	Fixed	Floating
US$750 million of 5.625% Guaranteed Notes repayable in October 2015	428	171	257	5.427%	6m LIBOR + 0.698%
£400 million of 5.750% Guaranteed Notes repayable in October 2017	400	330	70	5.750%	6m LIBOR – 0.070%
US$350 million of 6.500% Guaranteed Notes repayable in October 2035	200	200	–	5.826%	N/A
	1,028	**701**	**327**		

* *Note: Hedged value is the final redemption value including any hedging*

The Group has a Euro Medium Term Note Programme (the "Programme"), which provides the Group with a standardised documentation platform for senior debt issuance in the Eurobond markets. The £300 million of 6.000% Guaranteed Notes maturing in May 2027 has been issued under the Programme, which allows a maximum potential issuance of £1 billion.

During the year, the Company and the Group repaid the US$600 million and £100 million of Guaranteed Notes repayable in July 2009 and repurchased for cancellation $17.2 million of the US$600 million 9.500% Guaranteed Notes repayable in November 2018. The combined repayments resulted in a net cash outflow of £495 million, including cash flows on related hedges and a premium of £3 million paid on the redemption of the November 2018 Guaranteed Notes.

(ii) Loan Notes

During fiscal 2009, the Group repaid £35 million of Loan Notes and the remaining £2 million were redeemed in October 2009. Under the terms of the Loan Notes the Group paid a semi-annual coupon, based on floating six month LIBOR minus 1.000%.

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22. Borrowings and non-current other payables (continued)

(iii) Finance leases

The minimum lease payments under finance leases fall due as follows:

	2010 £m	2009 £m
Within one year	8	8
Between one and two years	8	8
Between two and three years	8	8
Between three and four years	8	8
Between four and five years	8	8
After five years	169	176
	209	**216**
Future finance charges on finance lease liabilities	(139)	(145)
Present value of finance lease liabilities	**70**	**71**

The main obligations under finance leases are in relation to:

(a) finance arrangements in connection with the broadband network infrastructure. During the year, repayments of £7 million (2009: £7 million) were made against the lease. A proportion of these payments have been allocated against the capital outstanding. The lease bears interest at a rate of 11.1% and expires in November 2039.

(b) finance arrangements in connection with the contact centre in Dunfermline. During the year, repayments of £1 million (2009: £1 million) were made against the lease. A proportion of these payments have been allocated against the capital amount outstanding. The lease bears interest at a rate of 8.5% and expires in September 2020.

(iv) Revolving Credit Facility

The Group has a £750 million Revolving Credit Facility ("RCF") with a maturity date of 30 July 2013, syndicated across 11 counterparty banks, each with a minimum credit rating of A–. At 30 June 2010, the RCF was undrawn (2009: undrawn).

At 30 June 2009, the Group had a £1 billion RCF due to expire on 30 July 2010 and had secured the above £750 million forward-starting RCF, to start on the same date.

In June 2010, the Group amended the forward-starting facility, to extend the maturity by one year and to reduce the cost. At the same time, the Group brought forward the start date of the new facility and cancelled its existing facility.

There are two opportunities to request an extension of one further year to the RCF, at the lenders' discretion, with a potential final maturity of July 2015.

The Group is subject to two financial covenants under the RCF, a maximum leverage ratio and a minimum interest cover ratio, which are tested at the end of each six monthly period. The key financial covenants are the ratio of Net Debt to EBITDA (as defined in the loan agreements) and EBITDA to Net Interest Payable (as defined in the loan agreements). Net Debt to EBITDA must be no more then 3.00:1 and EBITDA to Net interest payable must be at least 3.50:1. The Group was in compliance with these covenants for all periods presented.

(v) Guarantees

The following guarantees are in place relating to the Group's borrowings: (a) British Sky Broadcasting Limited, Sky Subscribers Services Limited, BSkyB Investments Limited, BSkyB Finance UK plc, BSkyB Publications Limited and Sky In-Home Service Limited ("SHS") have given joint and several guarantees in relation to the Company's £750 million RCF and the outstanding Guaranteed Notes issued by the Company (b) the Company, British Sky Broadcasting Limited, Sky Subscribers Services Limited, BSkyB Investments Limited, SHS and BSkyB Publications Limited have given joint and several guarantees in relation to the outstanding Guaranteed Notes issued by BSkyB Finance UK plc.

23. Derivatives and other financial instruments

Set out below are the derivative financial instruments entered into by the Group to manage its interest rate and foreign exchange risks.

	2010				2009			
	Asset		Liability		Asset		Liability	
	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m
Fair value hedges								
Interest rate swaps and swaptions	98	865	–	–	54	800	–	–
Cash flow hedges								
Cross-currency swaps	181	661	–	–	104	661	(17)	381
Forward exchange contracts	77	1,006	(8)	221	37	512	(43)	514
Currency options (collars)	11	61	–	61	11	105	(2)	105
Derivatives not in a formal hedge relationship								
Interest rate swaps and swaptions	–	–	–	–	1	83	–	10
Forward exchange contracts	1	10	(2)	49	4	34	(2)	61
Cross-currency swaps	70	353	(16)	390	28	353	(63)	401
Embedded derivatives	–	–	(1)	4	–	–	(1)	11
Total	**438**	**2,956**	**(27)**	**725**	**239**	**2,548**	**(128)**	**1,483**

The maturity of the derivative financial instruments is as follows:

	2010		2009	
	Asset £m	Liability £m	Asset £m	Liability £m
In one year or less	50	(10)	33	(42)
Between one and two years	24	(1)	13	(16)
Between two and five years	15	–	7	(7)
In more than five years	349	(16)	186	(63)
Total	**438**	**(27)**	**239**	**(128)**

Included within the fair value of forward exchange contracts are a number of US dollar and Euro-denominated forward exchange contracts which the Group has taken out with counterparty banks on behalf of two of its joint ventures: AETN UK and Chelsea Digital Media Limited. On the same dates as these forward contracts were entered into, the Group entered into equal and opposite forward contracts with the respective joint ventures. As a result, the net fair value of these contracts to the Group was nil (2009: nil). The gross sterling notional value of these forward contracts at 30 June 2010 was £1 million (2009: £3 million).

The fair value of the Group's debt-related derivative portfolio at 30 June 2010 was a £333 million net asset (2009: net asset of £107 million) with net notional principal amounts totalling £1,803 million (2009: £1,866 million). This comprised: net assets of £181 million designated as cash flow hedges (2009: net assets of £87 million), net assets of £98 million designated as fair value hedges (2009: net assets of £54 million) and net assets of £54 million not designated in a formal hedge relationship (2009: net liabilities of £34 million).

At 30 June 2010, the carrying value of financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss was nil (2009: nil).

Hedge accounting classification and impact

The Group has designated its interest rate swaps as fair value hedges of interest rate risk, representing 37% (2009: 30%) of the Group's debt portfolio. Movements in the fair value of the hedged items are taken to the income statement and are offset by movements in the fair value of the hedging instruments, to the extent that hedge accounting is achieved.

The Group has designated its fixed rate cross-currency swaps as cash flow hedges of 35% (2009: 41%) of the Group's debt portfolio. As such, the effective portion of the gain or loss on these contracts is reported as a separate component of the hedging reserve, and is then reclassified to the income statement in the same periods that the forecast transactions affect the income statement. During the current year, gains of £78 million were removed from the hedging reserve and credited to finance costs in the income statement to offset the currency translation movements in the underlying hedged debt (2009: gains of £350 million).

The Group designates its forward foreign exchange contracts and the intrinsic element of options (collars) as cash flow hedges of forecast foreign currency sales and purchases. Gains or losses are released from the hedging reserve and recycled to the income statement in the same period as the hedged item is recognised. If forecast transactions are no longer expected to occur, any amounts included in the hedging reserve related to that forecast transaction would be recognised directly in the income statement. During the current year gains of £13 million were removed from the hedging reserve and credited to operating expense in the income statement (2009: gains of £16 million). Losses of £2 million were removed from the hedging reserve and debited against revenue in the income statement (2009: losses of £15 million).

Notes to the consolidated financial statements
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23. Derivatives and other financial instruments (continued)

Swaption agreements have not been designated as hedging instruments for hedge accounting purposes and, as such, movements in their value are recorded directly in the income statement. The last of the Group's non-hedge accounted swaption agreements expired in July 2009.

Hedge effectiveness testing is performed, comparing the actual movement in the hedging items with the movement in the valuation of the hypothetically perfect hedge of the underlying risk at inception. This testing is performed quarterly using the dollar-offset approach and any ineffectiveness is recognised directly in the income statement. £2 million of ineffectiveness was recognised in the income statement during the current year (2009: less than £1 million).

A hedge relationship is deemed to be effective if the ratio of changes in valuation of the underlying hedged item and the hedging instrument is within the range of 80% to 125%. Any relationship which has a ratio outside this range is deemed to be ineffective, at which point hedge accounting is suspended. During the year ended 30 June 2010, there were no instances in which the hedge relationship was not highly effective (2009: no instances).

Financial instruments

(a) Carrying value and fair value

The accounting classification of each class of the Group's financial assets and financial liabilities, together with their fair values, is as follows:

	Held to maturity investments £m	Available-for-sale £m	Derivatives deemed held for trading £m	Derivatives in hedging relationships £m	Loans and receivables £m	Other liabilities £m	Total carrying value £m	Total fair value £m
At 30 June 2010								
Quoted bond debt	–	–	–	–	–	(2,388)	(2,388)	(2,619)
Derivative financial instruments	–	–	52	359	–	–	411	411
Trade and other payables	–	–	–	–	–	(1,174)	(1,174)	(1,174)
Provisions	–	–	–	–	–	(16)	(16)	(16)
Obligations under finance leases and other borrowings	–	–	–	–	–	(70)	(70)	(70)
Available-for-sale investments	–	182	–	–	–	–	182	182
Trade and other receivables	–	–	–	–	334	–	334	334
Short-term deposits	400	–	–	–	–	–	400	400
Cash and cash equivalents	148	–	–	–	501	–	649	649
At 30 June 2009								
Quoted bond debt	–	–	–	–	–	(2,671)	(2,671)	(2,692)
Derivative financial instruments	–	–	(33)	144	–	–	111	111
Loan notes	–	–	–	–	–	(2)	(2)	(2)
Trade and other payables	–	–	–	–	–	(1,147)	(1,147)	(1,147)
Provisions	–	–	–	–	–	(15)	(15)	(15)
Obligations under finance leases and other borrowings	–	–	–	–	–	(71)	(71)	(71)
Available-for-sale investments	–	261	–	–	–	–	261	261
Trade and other receivables	–	–	–	–	392	–	392	392
Short-term deposits	90	–	–	–	–	–	90	90
Cash and cash equivalents	165	–	–	–	646	–	811	811

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and which are traded on active liquid markets is determined with reference to quoted market prices;
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- Foreign currency forward option contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts;
- Interest rate and cross currency swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates; and

- The fair value of obligations under finance leases and other borrowings is estimated by discounting the future cash flows to net present value. The fair value of short-term deposits and cash and cash equivalents is equivalent to carrying value due to the short-term nature of these instruments.

The differences between carrying values and fair values reflect unrealised gains or losses inherent in the financial instruments, based on valuations as at 30 June 2010 and 30 June 2009. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

The Group also has holdings in joint ventures and associates, which are accounted for using the equity method (see note 15). As these investments are unlisted, their fair value cannot be measured reliably.

Cash and cash equivalents classified as held to maturity investments comprise money market deposits which have maturity dates of less than three months from inception. Money market deposits which have maturity greater than three months from inception are classified as short-term deposits.

Cash and cash equivalents classified as loans and receivables mainly comprise investments in AAA rated money market funds which can be withdrawn without notice.

(b) Fair value hierarchy

The following table categorises the Group's financial instruments which are held at fair value into 1 of 3 levels to reflect the degree to which observable inputs are used in determining their fair values:

	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m
At 30 June 2010				
Assets measured at fair value				
Available-for-sale financial instruments				
ITV investment	156	156	–	–
Other investments at cost	26	–	–	26
Financial assets at fair value through profit or loss				
Interest rate swaps	98	–	98	–
Cross currency swaps	251	–	251	–
Forward foreign exchange and option contracts	89	–	89	–
Total	**620**	**156**	**438**	**26**
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Cross currency swaps	(16)	–	(16)	–
Forward foreign exchange and option contracts	(10)	–	(10)	–
Embedded derivatives	(1)	–	(1)	–
Total	**(27)**	**–**	**(27)**	**–**

Level 1

Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2

Fair values measured using inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly.

Level 3

Fair values measured using inputs for the asset or liability that are not based on observable market data. There has been no movement in the Group's Level 3 investments in the year ended 30 June 2010.

24. Financial risk management

Group Treasury activity

The Group's Treasury function is responsible for raising finance for the Group's operations, together with associated liquidity management and management of foreign exchange, interest rate and credit risks. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed by both the Audit Committee and the Board, which receive regular updates of Treasury activity. Derivative instruments are transacted for risk management purposes only. It is the Group's policy that all hedging is to cover known risks and no speculative trading is undertaken. Regular and frequent reporting to management is required for all transactions and exposures, and the internal control environment is subject to periodic review by the Group's internal audit team.

The Group's principal market risks are exposures to changes in interest rates and foreign exchange rates, which arise both from the Group's sources of finance and its operations. Following evaluation of those market risks, the Group selectively enters into derivative financial instruments to manage these exposures. The principal instruments currently used are interest rate swaps to hedge interest rate risks, and cross currency swaps, forward exchange contracts and currency options (collars) to hedge transactional and translational currency exposures.

Notes to the consolidated financial statements
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24. Financial risk management (continued)

Interest rate risk

The Group has financial exposures to both UK and US interest rates, arising primarily from the Group's long-term bonds and other borrowings. The Group's hedging policy requires that between 50% and 75% of borrowings are held at fixed rates. This is achieved by issuing fixed rate bonds and then using interest rate swaps to adjust the balance between fixed and floating rate debt. The Group's bank debt is at floating rates, and, when drawn, means that the mix of fixed and floating rate debt fluctuates and is therefore managed to ensure compliance with the Group's hedging policy. At 30 June 2010, 62% of borrowings were held at fixed rates after hedging (2009: 63%).

The Group uses derivatives to convert all of its US dollar-denominated debt and associated interest rate obligations to pounds sterling (see section on foreign exchange risk for further detail). At 30 June 2010, the Group had no net US dollar denominated interest rate exposure on its borrowings.

The Group designates its interest rate swaps as fair value hedges of interest rate risk. Movements in the fair value of the hedged exposure are taken to the income statement and are offset by movements in the fair value of the hedging instruments, which are also taken to the income statement. Any hedge ineffectiveness is recognised directly in the income statement. In the year ended 30 June 2010, this amounted to £2 million (2009: less than £1 million).

At 30 June 2010 and 30 June 2009, the Group's annual finance costs would be unaffected by any change to the Group's credit rating in either direction.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative financial instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

For each one hundred basis point rise or fall in interest rates at 30 June 2010, and if all other variables were held constant:

- The Group's profit for the year ended 30 June 2010 would increase or decrease by £3 million (2009: profit for the year would increase or decrease by £1 million). The increase is driven by an increase in the cash balance held.
- Other equity reserves would decrease or increase by £17 million (2009: decrease or increase by £8 million).

A one hundred basis point rise or fall in interest rates represents a large but realistic movement which can easily be multiplied to give sensitivities at different interest rates.

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates changes as the Group's portfolio of debt, cash and foreign currency contracts changes. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group. The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

Foreign exchange risk

A combination of cross-currency and interest rate swap arrangements is used to convert the Group's US dollar denominated debt and associated interest rate obligations to pounds sterling, at fixed exchange rates. At 30 June 2010, the split of the Group's aggregate borrowings into their core currencies was US dollar 68% and pounds sterling 32% (2009: US dollar 68% and pounds sterling 32%). At 30 June 2010, 100% of the Group's long-term borrowings, after the impact of derivatives, are denominated in pounds sterling.

The Group's revenues and operating expenses are substantially denominated in pounds sterling. A small proportion of operating expenses is denominated in US dollars, while a small proportion of revenues is denominated in Euros. In the current year, approximately 11% of operating expenses (£537 million) was denominated in US dollars (2009: approximately 9% (£418 million)) and 8% of revenues was denominated in Euros (2009: 8%).

The US dollar expense relates mainly to the Group's programming contracts with US suppliers, together with US dollar-denominated set-top box costs. The Euro revenues are primarily due to subscribers located in Ireland. The Group's exposure to Euro-denominated revenue is offset to a certain extent by Euro-denominated costs, related mainly to certain transponder costs; the net position being a Euro surplus (2009: surplus).

The Group hedges currency exposures on US dollar and Euro-denominated highly probable cash flows by using forward exchange contracts and options (collars) purchased up to five years ahead of the cash flow.

It is the Group's policy that all anticipated foreign currency exposures are substantially hedged in advance of the year in which they occur.

At 30 June 2010, the Group had purchased forward foreign exchange contracts and collars representing up to:

- Approximately 85% of US dollar-denominated costs falling due within one year (2009: 90%), and approximately 80% of US dollar-denominated costs falling due within five years (2009: approximately 80%) which are hedged via
  - Outstanding commitments to purchase, in aggregate, US$1,310 million (2009: US$1,060 million) at an average rate of US$1.58 to £1.00 (2009: US$1.61 to £1.00).
  - In addition, collars were held relating to the purchase of a total of US$91 million (2009: US$174 million).
- Approximately 80% of Euro-denominated exposures relating to revenues and transponder costs falling due within 18 months (2009: approximately 75%), which are hedged via
  - Outstanding commitments to sell, in aggregate, €440 million (2009: €437 million) at an average rate of €1.13 (2009: €1.14).
  - Outstanding commitments to purchase, in aggregate, €58 million (2009: €83 million) at an average rate of €1.13 (2009: €1.15).

- No forward foreign exchange contracts or collars have been purchased falling due beyond five years (2009: none).

The Group designates the following as cash flow hedges for hedge accounting purposes:

- Forward foreign exchange contracts.
- The intrinsic value of collars (all other fair value movements are recognised directly in the income statement).
- Cross-currency swaps where interest on both legs is at a fixed interest rate.

As such, the effective portion of the gain or loss on these contracts is reported as a component of the hedging reserve, outside the income statement, and is then reclassified to the income statement in the same periods that the forecast transactions affect the income statement. Ineffectiveness of less than £1 million was recognised in the income statement during the year (2009: less than £1 million).

During the year, the Group exchanged £19 million for US dollars (2009: £76 milion) and €63 million was exchanged for pounds sterling (2009: €33 million) on currency spot markets.

A combination of US dollar denominated interest rate and USD/GBP cross currency swaps is used to convert fixed dollar denominated debt to floating sterling denominated debt. The interest rate swaps are designated as fair value hedges. The associated cross currency swaps are not designated as hedging instruments for hedge accounting purposes and, as such, movements in their value are recorded directly in the income statement.

Foreign exchange sensitivity

The following analysis details the Group's sensitivity to movements in pounds sterling against those currencies in which it has significant transactions. The sensitivity analysis includes only outstanding foreign currency denominated financial instruments and adjusts their translation at the period end for a 25% change in foreign currency rates, representing the maximum currency exposure reported to management on a regular basis.

A 25% strengthening in pounds sterling against the US dollar would have the effect of reducing profit by £36 million (2009: reducing profit by £36 million), of which losses of £35 million relate to non-cash movements in the valuation of derivatives (2009: losses of £35 million). The same strengthening would have an adverse impact on other equity of £198 million (2009: adverse impact of £151 million).

A 25% weakening in pounds sterling against the US dollar would increase profit by £59 million (2009: increasing profit by £61 million) of which gains of £58 million relate to non-cash movements in the valuation of derivatives (2009: gains of £58 million). The same weakening in pounds sterling would have a beneficial impact on other equity of £330 million (2009: beneficial impact of £252 million).

A 25% strengthening in pounds sterling against the Euro would have the effect of increasing profit by £2 million (2009: increasing profit by £2 million). None of this amount relates to non-cash movements in the valuation of derivatives. The same strengthening would have a beneficial impact on other equity of £69 million (2009: beneficial impact of £65 million).

A 25% weakening in pounds sterling against the Euro would have the effect of reducing profit by £4 million (2009: reducing profit by £4 million). None of this amount relates to non-cash movements in the valuation of derivatives. The same weakening would have an adverse impact on other equity of £115 million (2009: adverse impact of £108 million).

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates is constantly changing as the Group's portfolio of debt, foreign currency and equity contracts changes. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group. The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

Hedge accounting

The interest rate and foreign exchange rate risk sections above outline the Group's policies regarding use of derivative products. Further detail on valuations and the impact of hedge accounting during the year are provided in note 23.

Credit risk

The Group is exposed to counterparty default risk amounting to invested cash and cash equivalents and short-term deposits, and the positive fair value of derivative financial assets held.

This risk is deemed to be low. Counterparty risk forms a central part of the Group's Treasury policy, which is monitored and reported on regularly. The Group manages credit risk by diversifying its exposures across a wide number of counterparties, such that the maximum exposure to any individual counterparty was less than 11% of the total asset value of instruments at the end of the year. Treasury policies ensure that all transactions are only effected with strong relationship banks and, at the date of signing, each carried a minimum credit rating of "A-" or equivalent from Moody's and Standard and Poor's.

The amount recognised in the income statement in respect of credit risk for derivatives deemed held for trading is nil (2009: nil).

Credit risk in our residential customer base is mitigated by billing and collecting in advance for digital television subscriptions for over 97% of our residential customer base. The Group's maximum exposure to credit risk on trade receivables is the carrying amounts as disclosed in note 19.

Liquidity risk

Our principal source of liquidity is cash generated from operations, combined with access to a £750 million RCF, which expires in July 2013, with the right to request two further one year extensions. At 30 June 2010, this facility was undrawn (30 June 2009: undrawn).

To ensure continuity of funding, the Group's policy is to ensure that available funding matures over a period of years. At 30 June 2010, 76% (2009: 61%) of the Group's total available funding (including available undrawn amounts on our RCF) was due to mature in more than five years.

Notes to the consolidated financial statements
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24. Financial risk management (continued)

Full details of the Group's borrowings and undrawn facilities are shown in note 22, other than current trade and other payables, shown in note 20, and provisions, shown in note 21.

The following table analyses the Group's non-derivative financial liabilities, net-settled derivative financial instruments and gross settled financial instruments into relevant maturity groupings, based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. These amounts may not reconcile to the amounts disclosed on the balance sheet for borrowings, derivative financial instruments and trade and other payables.

	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
At 30 June 2010				
Non derivative financial liabilities				
Bonds – USD	111	111	333	2,172
Bonds – GBP	41	41	123	985
Obligations under finance leases and other borrowings	8	8	24	169
Trade and other payables	1,123	45	6	–
Provisions	6	3	6	2
Net settled derivatives				
Financial assets	(35)	(35)	(105)	(79)
Financial liabilities	–	–	–	–
Gross settled derivatives				
Outflow	73	73	218	1,805
Inflow	(78)	(78)	(235)	(2,100)

	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
At 30 June 2009				
Non derivative financial liabilities				
Bonds – USD	481	102	305	2,086
Bonds – GBP	149	41	123	1,026
Loan Notes	–	–	2	–
Obligations under finance leases and other borrowings	8	8	24	176
Trade and other payables	1,090	41	5	–
Provisions	4	5	8	4
Net settled derivatives				
Financial assets	(25)	(25)	(76)	(85)
Financial liabilities	–	–	–	–
Gross settled derivatives				
Outflow	470	74	223	1,892
Inflow	(457)	(78)	(235)	(2,008)

Capital Risk Management

The Group's objectives when managing capital are to endeavour to ensure that the Group has the ability to access capital markets when necessary and to optimise liquidity and operating flexibility through the arrangement of new debt, while seeking to minimise the cost of capital. The Group monitors its liquidity requirements regularly and is satisfied that it has access to sufficient liquidity and operating flexibility to meet its capital requirements.

The Group manages its short and long-term capital structure by seeking to maintain leverage ratios consistent with a long-term investment grade credit rating (BBB- or better from Standard & Poor's and Baa3 or better from Moody's). The Group's current ratings are BBB+ (Standard & Poor's) and Baa1 (Moody's). The leverage ratios assessed by these rating agencies are those of Net Debt: EBITDA and Gross Debt: EBITDA. Net Debt is defined as total borrowings, including the cash flows arising under operating leases and transponder prepayments, less cash and cash equivalents, excluding derivatives. Gross Debt does not reduce total borrowings by the inclusion of cash and cash equivalents.

The Group is also required to maintain a Net Debt: EBITDA ratio below 3.00:1 under the terms of its RCF. The RCF definition of Net Debt does not require the inclusion of future operating lease or transponder cash flows.

At 30 June 2010, the Net Debt: EBITDA ratio as defined by the terms of the RCF was 0.9:1 (2009: 1.6:1).

25. Share capital

	2010 £m	2009 £m
Authorised ordinary shares of 50p 3,000,000,000 (2009: 3,000,000,000)	1,500	1,500
Allotted, called-up and fully paid 1,752,842,599 (2009: 1,752,842,599)	876	876

The Company has one class of ordinary shares which carries equal voting rights and no contractual right to receive payment.

Share option and contingent share award schemes

The Company operates various equity-settled share option schemes (the "Schemes") for certain employees.

The number of newly issued shares which may be allocated under the Schemes on any day shall not, when aggregated with the number of newly issued shares which have been allocated in the previous ten years under the Schemes and any other employee share scheme adopted by the Company, exceed such number as represents five percent of the ordinary share capital of the Company in issue immediately prior to that day. In determining this limit no account shall be taken of any newly issued shares where the right to acquire the newly issued shares was released, lapsed, cancelled or otherwise became incapable of exercise. Options and awards which will be satisfied by ESOP shares do not fall within these headroom limits.

The share awards outstanding can be summarised as follows:

	2010 Number of ordinary shares	2009 Number of ordinary shares
Executive Share Option Scheme options(i)	13,803,846	17,945,045
Sharesave Scheme options(ii)	6,175,446	6,514,732
All Employee awards(iii)	1,383,400	1,595,700
Management LTIP awards(iv)	13,447,526	19,276,851
LTIP awards(v)	5,869,560	9,293,347
Management Co-Investment LTIP awards(vi)	599,181	–
Co-Investment LTIP awards(vii)	728,736	–
	42,007,695	**54,625,675**

(i) Executive Share Option Scheme options

Included within the total Executive Share Option Scheme options outstanding at 30 June 2010 are 12,260,846 options (2009: 16,293,545) which may be exercised in the final year before their lapsing date, regardless of meeting performance criteria, provided that the employee remains in employment with the Group. Where performance criteria are achieved, the options may be exercised immediately following the end of the vesting period (being the term over which the performance criteria are required to be met). The remaining 1,543,000 options (2009: 1,651,500) have no performance criteria attached, other than the requirement that the employee remains in employment with the Group. The contractual life of all Executive Share Option Scheme options is ten years.

Grants under the Executive Share Option Scheme were made on an annual basis to selected employees, with the exercise price of options being equal to the Company's share price on the date of grant. For those options with performance conditions, growth in EPS had to exceed growth in the Retail Prices Index plus 3% per annum in order for awards to vest. Options vest on an accelerated basis over a period of up to four years from the date of grant.

(ii) Sharesave Scheme options

All Sharesave Scheme options outstanding at 30 June 2010 and 30 June 2009 have no performance criteria attached, other than the requirement that the employee remains in employment with the Group. Options granted under the Sharesave Scheme must be exercised within six months of the relevant award vesting date.

The Sharesave Scheme is open to all employees. Options are normally exercisable after either three, five or seven years from the date of grant. The price at which options are offered is not less than 80% of the middle-market price on the dealing day immediately preceding the date of invitation. It is the policy of the Group to make an invitation to employees to participate in the scheme following the announcement of the end of year results.

(iii) All Employee awards

The All Employee awards outstanding at 30 June 2010 and 30 June 2009 have no performance criteria attached, other than the requirement that the employee remains in employment with the Group. Awards granted under the All Employee award will be exercised upon the award vesting date.

The Company granted the All Employee award to all permanent employees on 5 February 2009. Awards under the scheme are granted in the form of a nil-priced option, and are satisfied using market-purchased shares.

Notes to the consolidated financial statements
continued

25. Share capital (continued)

(iv) Management LTIP awards

All Management LTIP awards outstanding at 30 June 2010 and 30 June 2009 vest only if performance conditions are met. Awards granted under the Management LTIP must be exercised within one year of the relevant award vesting date.

The Company grants awards to selected employees under the Management LTIP. Awards under this scheme mirror the LTIP, with the same performance conditions. Awards exercised under the Management LTIP can only be satisfied by the issue of market-purchased shares.

(v) LTIP awards

All LTIP awards outstanding at 30 June 2010 and 30 June 2009 vest only if performance conditions are met. Awards granted under the LTIP must be exercised within one year of the relevant award vesting date.

The Company operates the LTIP for Executive Directors and Senior Executives. Awards under the scheme are granted in the form of a nil-priced option, and are satisfied using market-purchased shares. The awards vest in full or in part dependent on the satisfaction of specified performance targets. 30% of the award vests dependent on TSR performance over a three year performance period, relative to the constituents of the FTSE 100 at the time of grant, and the remaining 70% vests dependent on performance against operational targets.

(vi) Management Co-Investment LTIP awards

All Management Co-Investment LTIP awards outstanding at 30 June 2010 vest only if performance conditions are met. Awards granted under the Management Co-Investment LTIP must be exercised within one year of the relevant award vesting date.

The Company grants awards to selected employees under the Management Co-Investment LTIP. Awards under this scheme mirror the Co-Investment LTIP, with the same performance conditions.

(vii) Co-Investment LTIP awards

All Co-Investment LTIP awards outstanding at 30 June 2010 vest only if performance conditions are met. Awards granted under the Co-Investment LTIP must be exercised within one year of the relevant award vesting date.

The Company operates the Co-Investment LTIP award for Executive Directors and Senior Executives. Employees who participate in the plan are granted a conditional award of shares based on the amount they have invested in the Group. The investment will be matched up to a maximum of 1.5 shares for every share invested, subject to a three-year EPS performance condition.

For the purposes of the disclosure below, the Sharesave Scheme options and All Employee awards ("Sharesave Schemes") and the Management LTIP, LTIP, Co-Investment Management LTIP and Co-Investment LTIP awards ("Senior Management Schemes") have been aggregated.

The movement in share awards outstanding is summarised in the following table:

	Executive Scheme		Sharesave Schemes		Senior Management Schemes		Total	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 July 2008	19,705,967	7.05	5,010,788	4.73	17,612,247	0.00	42,329,002	3.84
Granted during the year	–	–	4,911,084	2.49	12,533,050	0.00	17,444,134	0.70
Exercised during the year	–	–	(271,611)	4.26	(328,066)	0.00	(599,677)	1.97
Forfeited during the year	(1,463,143)	6.73	(1,448,515)	4.68	(1,245,746)	0.00	(4,157,404)	3.98
Expired during the year	(297,779)	5.01	(91,314)	4.33	(1,287)	0.00	(390,380)	4.84
Outstanding at 30 June 2009	17,945,045	7.11	8,110,432	3.40	28,570,198	0.00	54,625,675	2.84
Granted during the year	–	–	2,206,411	4.33	9,143,651	0.00	11,350,062	0.84
Exercised during the year	(2,067,227)	5.22	(1,307,893)	3.97	(12,449,270)	0.00	(15,824,390)	1.00
Forfeited during the year	(702,487)	7.23	(1,109,810)	3.80	(4,619,576)	0.00	(6,431,873)	1.47
Expired during the year	(1,371,485)	6.49	(340,294)	4.71	–	–	(1,711,779)	6.13
Outstanding at 30 June 2010	**13,803,846**	**7.44**	**7,558,846**	**3.46**	**20,645,003**	**0.00**	**42,007,695**	**3.07**

The weighted average market price of the Group's shares at the date of exercise for share options exercised during the year was £5.50 (2009: £4.59). For those exercised under the Executive Scheme it was £6.27 (2009: nil), for those exercised under the Sharesave Schemes it was £5.53 (2009: £4.67), and for those exercised under the Senior Management Schemes it was £5.37 (2009: £4.53).

The middle-market closing price of the Company's shares at 25 June 2010 was £7.01 (26 June 2009: £4.50).

The following table summarises information about share awards outstanding at 30 June 2010:

	Executive Scheme		Sharesave Schemes		Senior Management Schemes		Total	
Range of exercise prices	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years
£0.00 – £1.00	–	–	1,383,400	1.6	20,645,003	2.1	22,028,403	2.1
£3.00 – £4.00	–	–	2,720,290	2.5	–	–	2,720,290	2.5
£4.00 – £5.00	–	–	2,579,561	3.1	–	–	2,579,561	3.1
£5.00 – £6.00	3,383,932	3.5	875,595	1.6	–	–	4,259,527	3.1
£6.00 – £7.00	3,296,301	3.2	–	–	–	–	3,296,301	3.2
£7.00 – £8.00	3,574,429	1.3	–	–	–	–	3,574,429	1.3
£9.00 – £10.00	3,448,253	0.4	–	–	–	–	3,448,253	0.4
£12.00 – £13.00	100,931	–	–	–	–	–	100,931	–
	13,803,846	**2.1**	**7,558,846**	**2.4**	**20,645,003**	**2.1**	**42,007,695**	**2.1**

Notes to the consolidated financial statements
continued

25. Share capital (continued)

The following table summarises information about share awards outstanding at 30 June 2009:

	Executive Scheme		Sharesave Schemes		Senior Management Schemes		Total	
Range of exercise prices	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years
£0.00 – £1.00	–	–	1,595,700	2.6	28,570,198	1.9	30,165,898	2.0
£2.00 – £3.00	–	–	43,868	0.8	–	–	43,868	0.8
£3.00 – £4.00	–	–	3,675,121	3.1	–	–	3,675,121	3.1
£4.00 – £5.00	–	–	1,598,744	1.3	–	–	1,598,744	1.3
£5.00 – £6.00	5,431,296	4.6	1,181,736	2.5	–	–	6,613,032	4.2
£6.00 – £7.00	5,050,304	3.1	15,263	0.0	–	–	5,065,567	3.1
£7.00 – £8.00	3,728,360	2.3	–	–	–	–	3,728,360	2.3
£9.00 – £10.00	3,609,581	1.4	–	–	–	–	3,609,581	1.4
£11.00 – £12.00	12,247	1.0	–	–	–	–	12,247	1.0
£12.00 – £13.00	113,257	1.0	–	–	–	–	113,257	1.0
	17,945,045	**3.0**	**8,110,432**	**2.5**	**28,570,198**	**1.9**	**54,625,675**	**2.4**

The range of exercise prices of the awards outstanding at 30 June 2010 was between nil and £12.88 (2009: nil and £12.98). For those awards outstanding under the Executive Scheme it was between £5.03 and £12.88 (2009: £5.03 and £12.98); for those outstanding under the Sharesave Schemes it was between nil and £5.38 (2009: nil and £6.11) and for all awards outstanding under the Senior Management Schemes the exercise price was nil (2009: nil).

The following table summarises additional information about the awards exercisable at 30 June 2010 and 30 June 2009:

	2010			2009		
	Options exercisable at 30 June	Average remaining contractual life of exercisable options	Weighted average exercise price	Options exercisable at 30 June	Average remaining contractual life of exercisable options	Weighted average exercise price
Executive Scheme	13,803,846	2.1	7.44	17,945,045	3.0	£7.11
Sharesave Schemes	204,427	0.1	4.35	453,217	0.1	£4.73
Senior Management Schemes	656,011	0.1	–	–	–	–
	14,664,284	**2.0**	**7.06**	**18,398,262**	**3.0**	**£7.05**

Information for awards granted during the year

The weighted average fair value of equity-settled share options granted during the year, as estimated at the date of grant, was £4.19 (2009: £3.06). This was calculated using the Black-Scholes share option pricing model, except for awards which have market-based performance conditions, where a Monte-Carlo simulation model was used, and for grants of nil-priced options, which were treated as the award of a free share. The fair value of nil-priced options granted during the year was measured on the basis of the market-price of the Company's shares on the date of grant, discounted for expected dividends which would not be received over the vesting period of the options.

The Monte-Carlo simulation model reflected the historical volatilities of the Company's share price and those of all other companies to which the Company's performance would be compared, over a period equal to the vesting period of the awards.

Expected volatility was determined by calculating the historical volatility of the Company's share price, over a period equal to the expected life of the options. Expected life was based on the contractual life of the awards and adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

(i) Sharesave Schemes
The weighted average fair value of equity-settled share awards granted during the year under the Sharesave Schemes, as estimated at the date of grant, was £1.65 (2009: £1.98). This was calculated using the Black-Scholes share option pricing model.

The following weighted average assumptions were used in calculating these fair values:

	2010	2009
Share price	£5.73	£4.38
Exercise price	£4.33	£2.49
Expected volatility	28.3%	22.4%
Expected life	4.1 years	3.7 years
Expected dividends	3.1%	3.9%
Risk-free interest rate	2.3%	4.1%

(ii) Senior Management Schemes

The weighted average fair value of equity-settled share awards granted during the year under the Senior Management Schemes, as estimated at the date of grant, was £4.80 (2009: £3.49). The fair value of awards with market-based performance conditions was calculated using a Monte-Carlo simulation model. Awards granted as nil-priced options were treated as the award of a free share. For all other awards, fair value was calculated using the Black-Scholes share option pricing model.

The following weighted average assumptions were used in calculating these fair values:

	2010	2009
Share price	£5.47	£4.54
Exercise price	£0.00	£0.00
Expected volatility	34.8%	21.9%
Expected life	2.1 years	3.0 years
Expected dividends	3.2%	3.7%
Risk-free interest rate	2.1%	4.7%

26. Shareholders' equity (deficit)

	2010 £m	2009 £m
Share capital	876	876
Share premium	1,437	1,437
ESOP reserve	(47)	(73)
Hedging reserve	77	26
Available-for-sale reserve	98	96
Other reserves	362	354
Retained earnings	(2,243)	(2,780)
	560	**(64)**

Share premium and special reserve

On 10 December 2003, the High Court approved a reduction in the Company's share premium account of £1,120 million, as approved by the Company's shareholders at the AGM held on 14 November 2003. This amount was equal to the Company-only profit and loss account reserve deficit at 30 June 2003. As part of the application, the Company's balance sheet at 30 September 2003 was required to be presented. At that date, the deficit on the Company-only profit and loss account reserve had reduced by £14 million since 30 June 2003, to £1,106 million. As a condition of the reduction, the reduction in the share premium account of £1,120 million was permitted to be offset against the profit and loss account reserve by the amount of the deficit at 30 September 2003. The excess of £14 million was credited to a special reserve, and, under the terms of the reduction, will remain undistributable until all the creditors of the Company and its guarantors (as at 10 December 2003) are paid.

Merger reserve

The merger reserve, which is included in other reserves, represents amounts deducted from equity of £222 million (2009: £222 million). The merger reserve was created as a result of the purchase by the Group of interests in two entities. Sports Internet Group ("SIG") was purchased on 12 July 2000, where consideration was paid by the issue of equity shares in the Group. British Interactive Broadcasting ("BiB") was purchased between 28 June 2001 and 11 November 2002, where consideration was paid by the issue of equity shares in the Group.

The merger reserve was created in accordance with the merger relief provisions under section 131 of the Companies Act 1985 (as amended) and section 612 of the Companies Act 2006 relating to the accounting for business combinations involving the issue of shares at a premium. Merger relief provided relief from the requirement to create a share premium account in a parent company's balance sheet. In preparing consolidated financial statements, the amount by which the fair value of the shares issued exceeded their nominal value was recorded within a merger reserve on consolidation, rather than in a share premium account. This merger reserve was retained upon transition to IFRS, as allowed under UK law.

Purchase of own equity shares for cancellation and capital redemption reserve

On 4 November 2005, the Company's shareholders approved a resolution at the AGM for the Company to purchase up to 92 million ordinary shares. This authority to buyback shares expired on 3 November 2006. During the year ended 30 June 2007, the Company

Notes to the consolidated financial statements
continued

26. Shareholders' equity (deficit) (continued)

purchased, and subsequently cancelled, 38 million ordinary shares at an average price of £5.55, with a nominal value of £20 million, for a consideration of £214 million including stamp duty and commission of £2 million. The nominal value of the shares cancelled has been credited to other reserves.

The following table provides information about purchases of equity shares by the company, including purchases by the Group's ESOP, during the fiscal year.

Period	Total number of shares purchased(i)	Average price paid per share
July	–	–
August	7,900,000	£5.37
September	–	–
October	–	–
November	–	–
December	–	–
January	–	–
February	–	–
March	–	–
April	–	–
May	2,310,083	£6.08
June	–	–
Total for the year ended 30 June 2010	**10,210,083**	**£5.53**

(i) All share purchases were open market transactions and are included in the month of settlement.

ESOP reserve

The cost of the Company's ordinary shares held by the Group's ESOP is treated as a deduction in arriving at total shareholders' equity. The movement in the ESOP reserve was as follows:

	Number of ordinary shares	Average price paid per share	£m
At 1 July 2008	6,229,328	£5.87	37
Share options exercised during the year	(599,677)	£6.73	(4)
Shares purchased by the ESOP during the year	8,500,000	£4.73	40
At 30 June 2009	**14,129,651**	**£5.15**	**73**
Share options exercised during the year	(15,824,390)	£5.17	(82)
Shares purchased by the ESOP during the year	10,210,083	£5.53	56
At 30 June 2010	**8,515,344**	**£5.56**	**47**

Hedging reserve

Changes in the fair values of derivatives that are designated as cash flow hedges are initially recognised in the hedging reserve, and subsequently recognised in the income statement when the related hedged items are recognised in the income statement. In addition, deferred taxation relating to these derivatives is also initially recognised in the hedging reserve prior to transfer to the income statement.

Available-for-sale reserve

Available-for-sale investments are carried at fair value where this can be reliably measured, with movements in the fair value recognised directly in the available-for-sale reserve. At 30 June 2010, the Group's available-for-sale reserve was £98 million (2009: £96 million) following the impairment of the Group's 17.9% investment in ITV, the recording of subsequent gains, and the disposal of 10.4% of ITV (see note 6).

Other reserves

The Group's other reserves include a capital redemption reserve, a merger reserve, a foreign currency translation reserve, and a special reserve. The capital redemption reserve was £95 million as at 30 June 2010 (2009: £95 million). The merger reserve was £222 million as at 30 June 2010 (2009: £222 million). The special reserve was £14 million as at 30 June 2010 (2009: £14 million). The foreign currency translation reserve was £31 million as at 30 June 2010 (2009: £23 million).

27. Notes to the Consolidated Cash Flow Statement

Reconciliation of profit before taxation to cash generated from operations

	2010 £m	2009 £m
Profit before taxation	**1,173**	**456**
Depreciation and impairment of property, plant and equipment	173	173
Amortisation and impairment of intangible assets	189	118
Impairment of available-for-sale investment	–	191
Profit on disposal of available-for-sale investment	(115)	–
Share-based payment expense	35	48
Net finance costs	70	185
Share of results of joint ventures and associates	(32)	(19)
	1,493	**1,152**
Decrease (increase) in trade and other receivables	69	(52)
Decrease (increase) in inventories	43	(76)
Increase in trade and other payables	24	190
Increase (decrease) in provisions	8	(19)
(Decrease) increase in derivative financial instruments	(3)	10
Cash generated from operations	**1,634**	**1,205**

28. Contracted commitments, contingencies and guarantees

a) Future minimum expenditure contracted for but not recognised in the financial statements

	Year ending 30 June 2011 £m	Year ending 30 June 2012 £m	Year ending 30 June 2013 £m	Year ending 30 June 2014 £m	Year ending 30 June 2015 £m	After 5 years £m	Total at 30 June 2010 £m	Total at 30 June 2009 £m
Television programme rights[(i)]	1,133	1,024	815	161	74	52	3,259	3,911
Set-top boxes and related equipment	266	–	–	–	–	–	266	496
Third party payments[(ii)]	67	34	32	1	–	–	134	204
Transponder capacity[(iii)]	81	81	81	72	67	369	751	282
Property, plant and equipment	41	–	–	–	–	–	41	51
Intangible asset	25	20	20	18	18	41	142	191
Smartcards[(iv)]	48	49	49	50	50	162	408	491
Other	108	51	14	10	7	7	197	107
	1,769	**1,259**	**1,011**	**312**	**216**	**631**	**5,198**	**5,733**

For the avoidance of doubt, any foreign currency commitments are translated to pounds sterling at the rate prevailing on 30 June 2010.

(i) *At 30 June 2010, the Group had minimum television programming rights commitments of £3,259 million (2009: £3,911 million), of which £412 million (2009: £445 million) related to commitments payable in US dollars for periods of up to eight years (2009: seven years).*

Assuming that movie subscriber numbers remain unchanged from current levels, an additional £545 million (US$886 million) of commitments (2009: £551 million, (US$879 million)) would also be payable in US dollars, relating to price escalator clauses. The pound sterling television programme rights commitments include similar price escalation clauses that would result in additional commitments of £24 million (2009: £1 million) if subscriber numbers were to remain at current levels.

(ii) *The third party payment commitments are in respect of distribution agreements for the television channels owned and broadcast by third parties, retailed by the Group to retail and commercial subscribers ("Sky Distributed Channels") and are for periods of up to four years (2009: five years). The extent of the commitment is largely dependent upon the number of retail subscribers to the relevant Sky Distributed Channels, and in certain cases, upon inflationary increases. If both the retail subscriber levels to these channels and the rate payable for each Sky Distributed Channel were to remain at current levels subject to inflationary increases, the additional commitment would be £521 million (2009: £533 million).*

(iii) *Transponder capacity commitments are in respect of the Astra and Eurobird satellites that the Group uses for digital transmissions to both retail subscribers and cable operators. The commitments are for periods of up to fifteen years (2009: eleven years).*

(iv) *In December 2008, the Group entered into a new contractual agreement with NDS, a related party, for the provision of smartcards.*

b) Contingent liabilities and guarantees

On 7 May 2008 the Nomenclature Committee of the European Commission issued an Explanatory Note "EN" (0590/2007) to the Combined Nomenclature setting out their view that set-top boxes with a hard drive should be classified under Customs Tariff heading 8521 90 00 and so subject to a 13.9% ad valorem duty on importation to the EU. As a consequence the Group is exposed to potential retrospective Customs Duty liability in respect of such set-top boxes imported by Amstrad (acquired in September 2007) and for the reimbursement of certain suppliers in line with the terms of contractual supply agreements.

Management's opinion is that the retrospective application of the Explanatory Note would be wrong as a matter of law. In addition management considers that the adoption of the EN puts the EU in breach of the Information Technology Agreement of 1996, a view which is shared by the US, Japan, Singapore and Taiwan who have instigated WTO proceedings against the EU on this matter. The Group therefore is, in common with other affected importers, defending its position on this matter and consequently has lodged an appeal to the VAT & Duties Tribunal regarding classification of these products.

Notes to the consolidated financial statements
continued

28. Contracted commitments, contingencies and guarantees (continued)

This matter has been referred by the Tribunal to the European Court of Justice. The Group has also lodged an appeal with HMRC against the assessment for retrospective duty.

As a result of the potential remedies available under the Community Customs Code, the Group considers that it is probable that no outflow of economic benefit would be required to discharge this obligation, and that as such at 30 June 2010 any liability should be considered contingent.

Certain subsidiaries of the Company have agreed to provide additional funding to several of their investments in limited and unlimited companies and partnerships, in accordance with funding agreements. Payment of this additional funding would be required if requested by the investees in accordance with the funding agreements. The maximum potential amount of future payments which may be required to be made by the subsidiaries of the Company to their investments, in both limited and unlimited companies and partnerships under the undertakings and additional funding agreements, is £8 million (2009: £6 million).

The Group has guarantees in place relating to the Group's borrowings, see note 22 – Borrowings and non-current other payables.

29. Operating lease commitments

The minimum lease rentals to be paid under non-cancellable operating leases at 30 June are as follows:

	2010 £m	2009 £m
Within one year	51	55
Between one and two years	38	43
Between two and three years	29	33
Between three and four years	21	23
Between four and five years	16	15
After five years	61	66
	216	**235**

The majority of operating leases relate to property. The rents payable under these leases are subject to renegotiation at the various intervals specified in the leases.

The minimum sub-lease rentals to be received under non-cancellable operating sub-leases at 30 June are as follows:

	2010 £m	2009 £m
Within one year	3	3
Between one and two years	3	3
Between two and three years	2	2
Between three and four years	1	2
Between four and five years	–	1
After five years	–	–
	9	**11**

Sub-lease rentals primarily relate to property leases.

30. Transactions with related parties and major shareholders

a) Entities with joint control or significant influence

The Group conducts business transactions with companies that are part of the News Corporation group ("News Corporation"), a major shareholder:

	2010 £m	2009 £m
Supply of services by the Group	32	40
Purchases of goods or services by the Group	(197)	(212)
Amounts owed by related parties to the Group	3	–
Amounts owed to related parties by the Group	(70)	(69)

Services supplied to News Corporation

During the year, the Group supplied programming, telephony, airtime, transmission, marketing, consultancy services and set-top boxes to News Corporation.

Purchases of goods and services and certain other relationships with News Corporation

During the year, the Group purchased programming, digital equipment, smartcards and encryption services, set-top box technologies, advertising, IT services and rental premises from News Corporation companies.

In March and April 2003, News Corporation Finance Trust II, which is controlled by News Corporation, issued and sold 0.75% Beneficial Unsecured Exchangeable Securities ("BUCS"), in a private placement to certain institutions. Each BUCS was exchangeable on or after 2 April 2004, for the value of reference shares, which initially consisted of 77.09 ordinary shares of the Company for each US$1,000 original liquidation preference of BUCS. Pursuant to a right of redemption granted to BUCS holders, on 15 March 2010, News Corporation redeemed for cash 98.6% of the outstanding BUCS. On 14 April 2010, News Corporation redeemed for cash the remaining BUCS outstanding. By reason of these redemptions, the BUCS are no longer outstanding.

In November 1996, a trust controlled by News Corporation issued a security consisting of Trust Originated Preferred Securities ("TOPrS") issued by another News Corporation-controlled trust, together with warrants issued by News America, a subsidiary of News Corporation. The warrants entitled the holders to purchase the Company's ordinary shares, or American Depositary Shares ("ADSs") representing the Company's ordinary shares, from News America. On 19 April 2010, News America redeemed for cash all the outstanding TOPrS and warrants. By reason of the redemption, the TOPrS and warrants are no longer outstanding.

News Corporation has entered into an agreement with the Group pursuant to which it has been agreed that, for so long as News Corporation directly or indirectly holds an interest of 30% or more in the Group, News Corporation will not engage in the business of satellite broadcasting in the UK or Ireland.

On 15 June 2010 News Corporation announced a proposal relating to a possible offer for the entire issued share capital of the Company not already owned by News Corporation ("the Proposal").

The Company announced on the same date that the Proposal, which is not a formal offer, is subject to regulatory and financing pre-conditions, which add considerable uncertainty to when and whether any formal offer could be made and that the Independent Directors of the Company, who have been so advised by Morgan Stanley and UBS Investment Bank, unanimously considered the terms of the Proposal to undervalue significantly the Company.

News Corporation has confirmed that the Proposal does not amount to a firm intention to make an offer under Rule 2.5 of the Takeover Code and that there can be no certainty that any offer will ultimately be made even if the pre-conditions are satisfied or waived. There is no obligation on News Corporation to make such an offer and therefore it can withdraw the Proposal at its sole discretion at any time.

Recognising that an offer from News Corporation could be in the interests of the Company's shareholders in the future, and that obtaining any necessary merger clearances would facilitate such an offer, the Company has agreed to co-operate with News Corporation in seeking those clearances from the relevant authorities.

To that end, the Company and News Corporation have entered into an agreement which also covers the following matters:

- The Company has agreed that it shall not request that the Takeover Panel issue a "Put up or shut up" notice on News Corporation pursuant to Rule 2.4(b) of the City Code on Takeovers and Mergers unless it is in material breach of the agreement.
- News Corporation has agreed that until the earlier of two months following receipt of merger clearance, payment of the £38.5 million fee below and 31 December 2011, it shall not acquire or offer to acquire an interest in the Company's shares or take action that would require it to make a takeover or similar transaction in respect of the Group's shares without the consent of the Independent Directors. Further, until the earlier of five months following receipt of merger clearance, payment of the £38.5 million fee below and 31 December 2011, any offer must be subject to a minimum acceptance threshold of 70% (including the shares owned by News Corporation).
- If merger clearance is not granted or granted subject to a material remedy, then News Corporation will reimburse the Company for costs incurred up to a maximum of £20 million. Further, if News Corporation either receives merger clearance unconditionally or subject to non-material remedies prior to 31 December 2011 and fails to make a firm offer within five months thereafter, or announces prior to obtaining merger clearance that it does not intend to make a firm offer, then News Corporation will pay the Company a fee of £38.5 million, representing 0.5% of the value of the Proposal.

Notes to the consolidated financial statements
continued

30. Transactions with related parties and major shareholders (continued)

b) Joint ventures and associates

Transactions between the Group and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below.

Transactions between the Company and its subsidiaries, joint ventures and associates are disclosed in the Company's separate financial statements.

	2010 £m	2009 £m
Supply of services by the Group	13	15
Purchases of goods or services by the Group	(55)	(51)
Amounts owed by joint ventures and associates to the Group	26	24
Amounts owed to joint ventures and associates by the Group	(4)	(3)

Services supplied are primarily the provision of transponder capacity, marketing, airtime sales and support services. Purchases represent fees payable for channel carriage. Amounts owed by joint ventures and associates include £20 million (2009: £19 million) relating to loan funding. These loans bear interest at rates of three month LIBOR plus 0.45%, six month LIBOR plus 1.5% and one month and six month LIBOR plus 1%. The maximum amount of loan funding outstanding in total from joint ventures and associates during the year was £20 million (2009: £19 million).

The Group took out a number of forward exchange contracts with counterparty banks during the year on behalf of the joint ventures Chelsea Digital Media Limited and AETN UK. On the same dates as these forward contracts were entered into, the Group entered into equal and opposite contracts with the joint ventures in respect of these forward contracts.

The Group was not exposed to any of the net gains or losses on these forward contracts. The face value of forward exchange contracts that had not matured as at 30 June 2010 was £1 million (2009: £3 million).

During the year, US$3 million (2009: US$9 million) was paid to the joint ventures upon maturity of forward exchange contracts and US$2 million (2009: US$2 million) was received from joint ventures upon maturity of forward exchange contracts.

During the year, £2 million (2009: £4 million) was received from the joint ventures upon maturity of forward exchange contracts, and £2 million (2009: £1 million) was paid to the joint ventures upon maturity of forward exchange contracts.

c) Other transactions with related parties

A close family member of one Director of the Company who served during the year has a controlling interest in Shine Limited ("Shine"), in which the Group has a 13% equity shareholding. During fiscal 2009, Shine conducted an equity raising as part of the funding for the acquisition of Metronome Film & Television AB. The Group participated in the equity raising, acquiring a further 21,700 shares of the issued share capital of Shine for cash consideration of £19 million. During the year, the Group incurred programming and production costs for television of £6 million (2009: £10 million) from Shine. At 30 June 2010, there were no outstanding amounts (2009: nil) due to Shine.

A close family member of one Director of the Company runs Freud Entertainment Limited, which has provided external support to the press and publicity activities of the Group. During the year the Group incurred expenditure amounting to £1 million (2009: £1 million). At 30 June 2010 there were no outstanding amounts (2009: nil) due to or from Freud Entertainment Limited.

In addition to the foregoing, the Group has engaged in a number of transactions with companies of which some of the Company's Directors are also directors.

d) Key management

The Group has a related party relationship with the Directors of the Group. At 30 June 2010, there were 14 (2009: 14) members of key management all of whom were Directors of the Company. Key management compensation is disclosed in note 8b.

31. Group investments

The significant investments of the Company which principally affect the consolidated results and total assets of the Group are as follows:

Name	Country of incorporation	Description and proportion of shares held (%)	Principal activity
Subsidiaries:			
Direct holdings of the Company			
British Sky Broadcasting Limited	England and Wales	10,002,002 ordinary shares of £1 each (100%)(i)	Operation of pay television broadcasting in the UK and Ireland
British Interactive Broadcasting Holdings Limited	England and Wales	651,960 ordinary shares of £1 each (100%)	The transmission of interactive services
BSkyB Investments Limited	England and Wales	100 ordinary shares of £1 each (100%)	Holding company
BSkyB Finance UK plc	England and Wales	50,000 ordinary shares of £1 each (100%)	Finance company
Subsidiaries:			
Indirect holdings of the Company			
Sky Subscribers Services Limited	England and Wales	3 ordinary shares of £1 each (100%)	The provision of ancillary functions supporting the pay television broadcasting, residential broadband and telephone operations of the Group
Sky Holdings Limited	England and Wales	600 ordinary shares of £1 each (100%)	Holding company
Sky In-Home Service Limited	England and Wales	1,576,000 ordinary shares of £1 each (100%)	The supply, installation and maintenance of satellite television receiving equipment
BSkyB Publications Limited	England and Wales	2 ordinary shares of £1 each (100%)	The supply of magazines
British Sky Broadcasting SA	Luxembourg	12,500 ordinary shares of £12 each (100%)	Satellite transponder leasing
Sky Broadband SA(ii)	Luxembourg	310 ordinary shares of £100 each (100%)	Provision of broadband and telephony services
Sky Interactive Limited	England and Wales	659,000,003 ordinary shares of £1 each (100%)	The provision of interactive television services
Easynet Group Limited	England and Wales	121,308,490 ordinary shares of £0.04 each (100%)	Provision of broadband networking services in the UK and Europe
Sky Ventures Limited	England and Wales	912 ordinary shares of £1 each (100%)	Holding company
365 Media Group Limited	England and Wales	151,970,072 ordinary shares of £0.01 each (100%)	Holding company
Joint ventures and associates:			
Nickelodeon UK Limited(iii)	England and Wales	104 B Shares of £0.01 each (40%)	The transmission of children's television channels
AETN UK(iv)	England and Wales	50,000 A Shares of £1 each (50%)	The transmission of history, biography, crime and investigation television programming
Paramount UK Partnership(iii),(v)	England and Wales	Partnership interest (25%)	The transmission of general entertainment comedy channels
Australian News Channel Pty Limited	Australia	1 ordinary share of AUS$1 (33.33%)	The transmission of news and business channels
NGC Network International LLC	United States of America	Partnership interest (21%)	The transmission of natural history and adventure channels
NGC Network Latin America LLC	United States of America	Partnership interest (21%)	The transmission of natural history and adventure channels
MUTV Limited	England and Wales	800 B Shares of £1 each (33.33%)	The transmission, production and marketing of the Manchester United football channel
Attheraces Holdings Limited(iii)	England and Wales	1,500 ordinary shares of £1 each (45.85%), 20 Recoupment Shares of £0.01 each	The transmission of a horse racing channel and related online activities
Chelsea Digital Media Limited	England and Wales	42,648 B Shares of £0.01 each (35%) and 7 million redeemable preference shares of £1 each	The transmission, production and marketing of the Chelsea Football Club football channel and website
MGM Channel (UK) Limited	England and Wales	50 ordinary shares of £1 each (50%)	The transmission of classic movies in HD
Investments:			
ITV(iii)	England and Wales	291,684,730 ordinary shares of £0.10 each (7.499999965%)	The transmission of free-to-air channels

Notes:

(i) *50.00001% directly held by British Sky Broadcasting Group plc and 49.99999% held indirectly by BSkyB Investments Limited.*

(ii) *The assets and liabilities of this Company were transferred to BSkyB Limited in April 2010. This entity will be dormant going forward.*

(iii) *These entities have an accounting reference date of 31 December.*

(iv) *On 1 July 2009, The History Channel (UK) was renamed as AETN UK.*

(v) *The registered address of Paramount UK Partnership is 180 Oxford Street, London, W1D 1DS.*

Notes to the consolidated financial statements
continued

32. Events after the reporting period

a) Acquisition of Virgin Media television business

On 4 June 2010, the Group signed an agreement to purchase 100% of the shares of Virgin Media Television Limited, Virgin Media Television Rights Limited, and the assets and liabilities of the Virgin Media television channels ("VMtv"). The agreement was conditional on obtaining merger control clearance in the Republic of Ireland. On 12 July 2010, the conditions to completion were fulfilled and the Group completed the acquisition of VMtv. VMtv operates a portfolio of television channels including Living, Bravo, Virgin1 and Challenge which are distributed over various television platforms and generate revenue principally from the sale of advertising airtime and carriage fees paid by Pay-TV operators such as Virgin Media and Sky. VMtv was acquired to complement the Group's existing content business and to deliver strategic and financial benefits.

Goodwill arising from the acquisition is attributable to the anticipated profitability arising from the Group's access to new viewer demographics, breadth of content and channel slots and the anticipated future operating synergies from the combination.

Total consideration comprises £160 million of cash, with £105 million having been paid immediately upon completion. The outstanding contingent consideration of £55 million is payable upon receipt of UK regulatory clearance for the transaction. The Group notified the transaction to the OFT on 9 July 2010. The OFT has started its review of the transaction and issued its invitation to third parties to comment on the transaction on 20 July 2010. Should certain conditions be imposed by the regulatory authorities the contingent consideration may be reduced. The potential undiscounted amount of all future payments that the Group could be required to make under the contingent consideration arrangement is between £nil and £55 million. The Group estimates that the fair value of this contingent consideration is £55 million, less the time value of money.

Acquisition-related costs included in administration expenses in the Group consolidated income statement for the year ended 30 June 2010 amounted to £2 million.

Because the process of fair valuing the Virgin Media Television business has not been completed as at 28 July 2010, the initial accounting for the business combination is incomplete as at 28 July 2010. As a result, the Group is unable to disclose the following information regarding the acquisition:

- the gross contractual amount, fair value amount, or estimated contractual cash flows not expected to be collected of/from the receivables acquired
- the amounts recognised as of the acquisition date for each major class of assets and liabilities acquired/assumed
- the existence of or the values relating to any contingent liabilities recognised in accordance with IAS 37 on acquisition
- the amount of goodwill acquired and the amount of goodwill that is expected to be deductible for tax purposes.

b) Agreement on sale of Easynet Global Services business

On 21 July 2010 the Group announced that it had reached an agreement over the sale of its business-to-business telecommunications operation, Easynet Global Services ("Easynet"), to Lloyds TSB Development Capital ("LDC"). LDC will pay the Group £100 million for the business on completion of the transaction, subject to regulatory approval. The Group will retain the UK network assets that it acquired as part of the original acquisition of Easynet Group in 2005. As part of the sale, the Group and LDC will enter into a long-term supply agreement to grant Easynet continued access to the Group's fibre network and Easynet will also continue to be a key supplier to the Group.

If the transaction completes on the proposed terms, with the regulatory approvals having been received, the Group estimates that it will recognise an accounting profit on disposal to the order of £70-90 million in the next financial year.

33. British Sky Broadcasting Group plc Company only financial statements

Company Income Statement for the year ended 30 June 2010

	Notes	2010 £m	2009 £m
Revenue		**170**	**151**
Operating expense		(16)	13
Operating profit		**154**	**164**
Dividend income from subsidiaries		–	556
Investment income	B	76	201
Finance costs	B	(71)	(149)
Impairment of investment	F	(56)	(556)
Profit before tax	C	**103**	**216**
Taxation	D	(44)	(29)
Profit for the year attributable to equity shareholders		**59**	**187**

The accompanying notes are an integral part of this income statement.

Company Statement of Comprehensive Income for the year ended 30 June 2010

	2010 £m	2009 £m
Profit for the year attributable to equity shareholders	**59**	**187**
Other comprehensive income		
Amounts recognised directly in equity		
Gain on cash flow hedges	38	266
Tax on cash flow hedges	(11)	(75)
	27	191
Amounts reclassified and reported in the income statement		
Cash flow hedges	(35)	(280)
Tax on cash flow hedges	10	79
	(25)	(201)
Other comprehensive income (expense) for the year (net of tax)	**2**	**(10)**
Total comprehensive income for the year attributable to equity shareholders	**61**	**177**

The accompanying notes are an integral part of this statement of comprehensive income.

All results relate to continuing operations.

Notes to the consolidated financial statements
continued

33. British Sky Broadcasting Group plc Company only financial statements (continued)

Company Balance Sheet as at 30 June 2010

	Notes	2010 £m	2009 £m
Non-current assets			
Property, plant and equipment	E	–	–
Investment property	E	–	–
Investments in subsidiaries	F	4,722	4,738
Deferred tax assets	G	–	1
Other receivables	H	8	9
Derivative financial assets	K	349	187
		5,079	4,935
Current assets			
Other receivables	H	3,432	3,395
		3,432	3,395
Total assets		**8,511**	**8,330**
Current liabilities			
Borrowings	I	–	463
Other payables	J	2,340	1,521
Current tax liabilities		–	29
Derivative financial liabilities	K	–	16
		2,340	2,029
Non-current liabilities			
Borrowings	I	1,219	1,121
Derivative financial liabilities	K	203	168
		1,422	1,289
Total liabilities		**3,762**	**3,318**
Share capital		876	876
Share premium		1,437	1,437
Reserves		2,436	2,699
Shareholders' equity attributable to equity shareholders		**4,749**	**5,012**
Total liabilities and shareholders' equity		**8,511**	**8,330**

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

These financial statements of British Sky Broadcasting Group plc, registered number 2247735, have been approved by the Board of Directors on 28 July 2010 and were signed on its behalf by:

Jeremy Darroch
Chief Executive Officer

Andrew Griffith
Chief Financial Officer

Company Cash Flow Statement for the year ended 30 June 2010

		2010 £m	2009 £m
Cash flows from operating activities			
Cash generated from operations	N	–	–
Net cash from operating activities		**–**	**–**
Cash flows from financing activities			
Proceeds from the exercise of share options		47	1
Loan to subsidiaries		(47)	(1)
Net cash used in financing activities		**–**	**–**
Net increase in cash and cash equivalents		**–**	**–**
Cash and cash equivalents at the beginning of the year		–	–
Cash and cash equivalents at the end of the year		**–**	**–**

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

Company Statement of Changes in Equity for the year ended 30 June 2010

	Share capital £m	Share premium £m	Special reserve £m	Capital redemption reserve £m	Capital reserve £m	ESOP reserve £m	Hedging reserve £m	Retained earnings £m	Total Shareholders' equity £m
At 1 July 2008	**876**	**1,437**	**14**	**95**	**844**	**(37)**	**8**	**1,887**	**5,124**
Profit for the year	–	–	–	–	–	–	–	187	187
Recognition and transfer of cash flow hedges	–	–	–	–	–	–	(14)	–	(14)
Tax on items taken directly to equity	–	–	–	–	–	–	4	–	4
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(10)**	**187**	**177**
Share-based payment	–	–	–	–	–	(36)	–	45	9
Dividends	–	–	–	–	–	–	–	(298)	(298)
At 30 June 2009	**876**	**1,437**	**14**	**95**	**844**	**(73)**	**(2)**	**1,821**	**5,012**
Profit for the year	–	–	–	–	–	–	–	59	59
Recognition and transfer of cash flow hedges	–	–	–	–	–	–	3	–	3
Tax on items taken directly to equity	–	–	–	–	–	–	(1)	–	(1)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**59**	**61**
Share-based payment	–	–	–	–	–	26	–	(36)	(10)
Dividends	–	–	–	–	–	–	–	(314)	(314)
At 30 June 2010	**876**	**1,437**	**14**	**95**	**844**	**(47)**	**–**	**1,530**	**4,749**

For a description of the nature and purpose of each equity reserve, see note M.

The accompanying notes are an integral part of this statement of changes in equity.

Notes to the consolidated financial statements
continued

33. British Sky Broadcasting Group plc Company only financial statements (continued)

A. Accounting policies

British Sky Broadcasting Group plc (the "Company") is a limited liability company incorporated in England and Wales, and domiciled in the UK.

i) Statement of compliance

The Company financial statements have been prepared in accordance with IFRS, consistently with the accounting policies set out in note 1 of the Company's consolidated financial statements.

ii) Revenue

Revenue, which excludes value added tax, represents gross inflow of economic benefit from the Company's operating activities. Revenue is measured at the fair value of the consideration received or receivable. The Company's main sources of revenue are recognised as follows:

- Revenue from licensing the Company's brand name asset to subsidiaries. This revenue is recognised on an accruals basis under the terms of relevant leasing agreements.
- Revenue from leasing the Company's investment properties to subsidiaries. This revenue is recognised on an accruals basis.

iii) Investment property

Investment property is initially stated at cost, which comprises the purchase price and any expenditure directly attributable to the acquisition of the property. Subsequent to initial recognition, investment property is held at cost net of accumulated depreciation less any provision for impairment.

iv) Investment in subsidiaries

An investment in a subsidiary is recognised at cost less any provision for impairment. As permitted by section 133 of the Companies Act 2006, where the relief afforded under section 131 of the Companies Act 2006 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings. Dividends received from subsidiaries are recognised as income only to the extent that the Company receives distributions from accumulated profits of the subsidiary arising after the date of acquisition. Distributions received in excess of such profits are first recognised as a reduction in the cost of investment.

B. Investment income and finance costs

	2010 £m	2009 £m
Investment income		
Investment income from subsidiaries	76	196
Cash and cash equivalents	–	5
	76	**201**

	2010 £m	2009 £m
Finance costs		
– Interest payable and similar charges		
Revolving Credit facility 'RCF'	(11)	(3)
Guaranteed notes (see note I)	(69)	(125)
– Other finance (expenses) income		
Remeasurement of borrowings-related derivative financial instruments	9	(21)
Gain arising on derivatives in a designated fair value hedge accounting relationship	26	18
Loss arising on adjustment for hedged item in a designated fair value hedge accounting relationship	(26)	(18)
	(71)	**(149)**

C. Profit before taxation

Profit before taxation is stated after charging:

	2010 £m	2009 £m
Depreciation	–	1
Rental income from subsidiaries	–	1

Audit fees

Auditors' remuneration was less than £1 million (2009: less than £1 million).

Employee benefits

The Company had nil employees (2009: nil) during the year.

Key management compensation

Amounts paid to the Directors of the Company are disclosed in the Report on Directors' remuneration within British Sky Broadcasting Group plc's 2010 Annual Report.

D. Taxation

i) Taxation recognised in the income statement

	2010 £m	2009 £m
Current tax expense		
Current year	44	29
Total current tax	**44**	**29**
Deferred tax expense		
Origination and reversal of temporary differences	–	20
Adjustment in respect of prior years	–	(20)
Total deferred tax charge	**–**	**–**
Taxation	**44**	**29**

ii) Deferred tax recognised directly in equity

	2010 £m	2009 £m
Deferred tax charge/(credit) on hedging activities	1	(4)
	1	**(4)**

iii) Reconciliation of effective tax rate

The tax expense for the year is higher (2009: lower) than the standard rate of corporation tax in the UK (28%) applied to profit before tax. The differences are explained below:

	2010 £m	2009 £m
Profit before tax	103	216
Profit before tax multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	29	60
Effects of:		
Non-taxable income	–	(147)
Non-deductible expenditure	15	156
Group relief surrendered for no consideration	–	(40)
Taxation	**44**	**29**

All taxation relates to UK corporation tax.

E. Property, plant and equipment and investment property

	Total investment properties[(i)] £m	Total plant, property and equipment £m
Cost		
At 1 July 2008	23	3
Disposals	(23)	–
At 30 June 2009 and 30 June 2010	**–**	**3**
Depreciation		
At 1 July 2008	(2)	(2)
Depreciation	–	(1)
Disposals	2	–
At 30 June 2009 and 30 June 2010	**–**	**(3)**
Carrying amounts		
At 1 July 2008	21	1
At 30 June 2009 and 30 June 2010	**–**	**–**

(i) At 30 June 2010 the Company no longer has any investment properties as these have been sold to British Sky Broadcasting Limited, a wholly owned subsidiary of the Company, for consideration of £29 million. A profit on disposal of £2 million was realised from the sale in 2009.

F. Investments in subsidiaries

	Investments in subsidiaries £m
Cost	
At 1 July 2008	6,991
Additions	2
Disposal[(i)]	(694)
Impairment	(556)
At 30 June 2009	**5,743**
Additions	40
Impairment	(56)
At 30 June 2010	**5,727**
Provision	
At 1 July 2008, 30 June 2009, and 30 June 2010	1,005
Carrying amounts	
At 1 July 2008	5,986
At 30 June 2009	4,738
At 30 June 2010	**4,722**

(i) Following the liquidation of one of the Company's subsidiaries, BSkyB Finance (Luxembourg) s.a.r.l, the Company no longer holds this investment.

See note 31 for a list of significant investments of the Company.

G. Deferred tax assets

Recognised deferred tax assets

	Financial instrument temporary differences £m
At 1 July 2008	(3)
Charge to income	–
Charge to equity	4
At 30 June 2009	**1**
Charge to income	–
Charge to equity	(1)
At 30 June 2010	**–**

At 30 June 2010, a deferred tax asset of £349 million (2009: £349 million) has not been recognised in respect of potential capital losses related to the Group's holding of KirchPayTV, on the basis that utilisation of these temporary differences is not probable. At 30 June 2010, the Company has also not recognised a deferred tax asset of £1 million (2009: £1 million) relating to provisions in respect of football club investments, on the basis that it is not probable that they will be utilised.

H. Other receivables

	2010 £m	2009 £m
Prepayments and other receivables	–	5
Amounts receivable from subsidiaries	3,430	3,390
Accrued income	2	–
Current other receivables	**3,432**	**3,395**
Non current prepayment	8	9
Total other receivables	**3,440**	**3,404**

Notes to the consolidated financial statements
continued

33. British Sky Broadcasting Group plc Company only financial statements (continued)

During the year, the Company repaid the £100 million Guaranteed Notes due on 9 July 2010 and on the same date recalled a matching inter-company loan made to BSkyB Limited. The external loan and the inter-company loan accrued interest at 7.75%.

On 29 June 2008, the Company entered into the following loan agreements with BSkyB Limited:

- £143 million and £109 million, both bearing interest at a rate of 1 month LIBOR plus 0.75%. These loans are repayable on demand.
- £11 million at an interest rate of 12 month LIBOR plus 0.75%. This loan matures on 10 December 2012.

On 13 January 2009, the Company made a loan of £252 million to BSkyB Limited. This loan bears interest at a rate of 6 month LIBOR plus 1.00% and is repayable on demand.

On 5 March 2009, the Company made a loan of £694 million to BSkyB Limited which is repayable on demand and bears interest at a rate of 1 month LIBOR plus 0.75%. In October 2009, the Company assigned £604 million of this loan to settle payables with BSkyB Finance Limited.

On 29 June 2008, the Company entered into a RCF with BSkyB Investments for £400 million. Amounts loaned under this facility bear interest at a rate of 1 month LIBOR plus 0.75%, compounded annually and are repayable on demand.

In November 2008, the Company issued $600 million of bonds with a coupon rate of 9.5% and loaned the bond proceeds to BSkyB Finance Limited. BSkyB Finance Limited pays the same annual effective interest rate to the Company.

On 29 June 2008, the Company entered into a loan for £92 million with Sky Digital Supplies Limited. This loan is repayable on demand and bears interest at a rate of 1 month LIBOR plus 0.75%.

On 29 June 2008, Sky Ventures Limited transferred its £11 million loan receivable from BSkyB Finance Limited to the Company. This loan bears interest at a rate of 1 month LIBOR plus 0.75% and is repayable on demand.

On 29 June 2008, the Company entered into a RCF with BSkyB Finance Limited worth £20 million. Amounts loaned under this facility bear interest at a rate of 1 month LIBOR plus 0.75% , compounded annually and repayable on demand.

On 13 January 2009, the Company made a loan of £91 million to Sky In-Home Service Limited. This loan is repayable on demand and bears interest at a rate of 6 month LIBOR plus 1.00%.

All other amounts receivable from subsidiaries are non-interest bearing and are also repayable on demand.

The Directors consider that the carrying amount of other receivables approximates to their fair values.

The Company's credit risk is primarily attributable to its other receivables. The majority of its other receivables balance is due from British Sky Broadcasting Limited. The risk of this entity defaulting on amounts owed is considered low due to its successful operation of a pay television broadcasting service in the UK and Ireland.

I. Borrowings

	2010 £m	2009 £m
Current borrowings		
£100 million of 7.750% Guaranteed Notes repayable in July 2009	–	100
US$600 million of 8.200% Guaranteed Notes repayable in July 2009	–	363
	–	**463**
Non-current borrowings		
US$750 million of 6.100% Guaranteed Notes repayable in February 2018	511	459
US$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	413	367
£300 million of 6.000% Guaranteed Notes repayable in May 2027	295	295
	1,219	**1,121**

See note 22 for details of the Company's Guaranteed Notes and RCF and note 24 for details of Capital Risk Management.

J. Other payables

	2010 £m	2009 £m
Other payables		
Amounts owed to subsidiary undertakings	2,321	1,483
Accruals	19	38
	2,340	**1,521**

Amounts payable to subsidiaries are non-interest bearing and repayable on demand. The balance comprises £1.2 billion of non-interest bearing loans (2009: £0.3 billion) and £1.1 billion of trade payables (2009: £1.2 billion). The Directors consider that the carrying amount of other payables approximates to their fair values.

K. Derivatives and other financial instruments

Fair values

Set out below is a comparison by category of the book values and the estimated fair values of the Company's financial assets and financial liabilities at 30 June 2010 and 30 June 2009:

	2010 Book value £m	2010 Fair value £m	2009 Book value £m	2009 Fair value £m
Financial assets and liabilities held or issued to finance the Company's operations				
Quoted bond debt	(1,219)	(1,382)	(1,584)	(1,678)
Derivative financial instruments	146	146	3	3
Other payables and receivables	1,092	1,092	1,874	1,874

The fair values of financial assets and financial liabilities are determined as detailed in note 23 and all items are classified as Level 2 in the fair value hierarchy.

During the year ended 30 June 2010 the Company recognised gains of £9 million in the income statement (2009: £21 million).

Set out below are the derivative financial instruments entered into by the Company to manage its interest rate and foreign exchange risk.

	2010				2009			
	Asset		Liability		Asset		Liability	
	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m
Fair value hedges								
Interest rate swaps and swaptions	47	514	–	–	54	800	(35)	323
Cash flow hedges								
Cross-currency swaps	87	290	–	–	104	661	(73)	752
Derivatives not in a formal hedge relationship								
Interest rate swaps and swaptions	–	–	–	–	1	93	(1)	30
Currency swaps	215	1,075	(203)	1,369	28	353	(75)	658
Total	**349**	**1,879**	**(203)**	**1,369**	**187**	**1,907**	**(184)**	**1,763**

The notional values shown are the notional amounts of the derivatives identified.

Note 23 provides further details of the Group's derivative and other financial instruments.

The maturity of derivative financial instruments is shown below:

	2010		2009	
	Asset £m	Liability £m	Asset £m	Liability £m
In one year or less	–	–	–	(16)
Between one and two years	–	–	–	–
Between two and five years	–	–	–	–
In more than five years	349	(203)	187	(168)
Total	**349**	**(203)**	**187**	**(184)**

Notes to the consolidated financial statements
continued

33. British Sky Broadcasting Group plc Company only financial statements (continued)

L. Financial risk management

Interest rate and Foreign exchange risk management

The Company manages its exposure to interest rates and foreign exchange movements, which arise from the Company's sources of finance by selectively entering into derivative financial instruments to manage its exposure. The Company has also entered into derivative contracts on behalf of its subsidiary BSkyB Finance UK plc, and has back-to-back inter-company contracts.

Foreign exchange risk

The following analysis details the Company's sensitivity to movements in pounds sterling against all currencies in which it has significant transactions. The sensitivity analysis includes only outstanding foreign currency denominated financial instruments and adjusts their translation at the period end for a 25% change in foreign currency rates, representing the maximum currency exposure reported to management on a regular basis.

A 25% strengthening in pounds sterling against the US dollar would have an adverse impact on profit of £33 million (2009: adverse impact of £33 million), relating to non-cash movements in the valuation of derivatives. The same strengthening would have an adverse impact on other equity of £17 million (2009: adverse impact of £13 million).

A 25% weakening in pounds sterling against the US dollar would have a beneficial impact on profit of £55 million (2009: beneficial impact of £54 million), relating to non-cash movements in the valuation of derivatives. The same weakening would have a beneficial impact on other equity of £28 million (2009: beneficial impact of £21 million).

Interest rate risk

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative financial instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

For each one hundred basis point rise or fall in interest rates at 30 June 2010, and if all other variables were held constant, the Company's profit for the year ended 30 June 2010 would decrease or increase by £5 million (2009: decrease or increase by £5 million) and other equity reserves would decrease or increase by £6 million (2009: decrease or increase by £4 million).

A one hundred basis point rise or fall in interest rates represents a large but realistic movement which can easily be multiplied to give sensitivities at different interest rates.

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company. In addition, the Company's actual exposure to market rates changes as the Company's portfolio of debt changes. The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

Liquidity risk

See note 24 for the Company's policy on liquidity management.

The following table analyses the Company's non-derivative financial liabilities, net-settled interest rate swaps and gross-settled currency swaps and collars into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

These amounts may not reconcile to the amounts disclosed on the balance sheet for borrowings, derivative financial instruments and other payables.

	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
At 30 June 2010				
Non derivative financial liabilities				
Bonds – USD	68	68	203	1,111
Bonds – GBP	18	18	54	516
Other payables	–	–	–	–
Net settled derivatives				
Financial assets	(19)	(19)	(57)	(65)
Financial liabilities	–	–	–	–
Gross settled derivatives				
Outflow	48	48	143	933
Inflow	(48)	(48)	(145)	(1,046)

	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
At 30 June 2009				
Non derivative financial liabilities				
Bonds – USD	441	62	187	1,084
Bonds – GBP	126	18	54	534
Other payables	1,521	–	–	–
Net settled derivatives				
Financial assets	(14)	(14)	(41)	(61)
Gross settled derivatives				
Outflow	442	47	141	990
Inflow	(426)	(48)	(143)	(1,020)

At 30 June 2010, the Company had an undrawn £750 million Revolving Credit Facility ("RCF") with a maturity date of 30 July 2013. See note 22 for further information.

M. Notes to the company statement of changes in equity

For details of share capital, share premium, the special reserve and the capital redemption reserve, see notes 25 and 26.

For details of dividends, see note 11.

Capital reserve

This reserve arose from the surplus on the transfer of trade and assets to a subsidiary undertaking.

Hedging reserve

Changes in the fair values of derivatives that are designated as cash flow hedges are initially recognised in the hedging reserve, and then recognised in the income statement when the related hedged items are recognised in the income statement. In addition, deferred taxation relating to these derivatives is also initially recognised in the hedging reserve prior to transfer to the income statement.

N. Reconciliation of profit before taxation to cash generated from operations

	2010 £m	2009 £m
Profit before taxation	**103**	**216**
Depreciation	–	1
Dividend income	–	(556)
Impairment of investment	56	556
Disposal of investment	–	694
Net finance income	(5)	(52)
Increase in other receivables	(974)	(293)
Increase (decrease) in other payables	820	(566)
Cash generated from operations	**–**	**–**

Notes to the consolidated financial statements
continued

33. British Sky Broadcasting Group plc Company only financial statements (continued)

O. Contingent liabilities and guarantees

The Company and certain of its subsidiaries have undertaken, in the normal course of business, to provide support to several of the Group's investments in both limited and unlimited companies and partnerships, to meet their liabilities as they fall due. Several of these undertakings contain maximum financial limits. These undertakings have been given for at least one year from the date of the signing of the UK statutory accounts of the related entity. A payment under these undertakings would be required in the event of an investment being unable to pay its liabilities.

The Company has provided parent company guarantees in respect of the various contracts entered into with the PL by BSkyB Limited covering the 2010/11 to 2012/13 football seasons. In each case the guarantee covers all payment obligations now or in the future due, owing or incurred by BSkyB Limited under the contracts and all liabilities now or in the future arising or incurred under the indemnity given to the PL by BSkyB Limited under the contracts.

The Company has provided a parent company guarantee in respect of the contract entered into with British Telecommunications plc by Sky Broadband SA and since novated to British Sky Broadcasting Limited covering the provision of call services for Sky Talk until 2010/11. The guarantee covers all payment obligations now or in the future due under the contract.

The Company has provided a parental company guarantee in respect of the contract entered into with British Sky Broadcasting Limited and Stanhope Plc in relation to the construction of a new building at the Osterley Campus. The guarantee covers all performance obligations and payment obligations imposed on British Sky Broadcasting Limited under that contract.

The Company has provided a limited parental company guarantee in respect of a credit facility provided to BSkyB Publications Limited by Royal Mail Group plc in relation to the delivery of customer magazines. The guarantee covers all payment obligations of BSkyB Publications Limited and is capped at £2 million (together with interest).

The Company has guarantees in place relating to the Group's borrowings, see note 22 – 'Borrowings and non-current other payables'.

P. Transactions with related parties and major shareholders

	2010 £m	2009 £m
Supply of services to subsidiaries	162	143
Interest received from funding to subsidiaries	76	192
Amounts owed by subsidiaries	3,432	3,390
Amounts owed to subsidiaries	(2,321)	(1,483)

The Company has related party transactions with its subsidiaries by virtue of its status as parent company of the Group. In particular, it is normal treasury practice for the Company to lend and borrow cash to and from its subsidiaries as required. Under this policy, British Sky Broadcasting Limited settled liabilities of £87 million (2009: £134 million) on behalf of the Company, during the year. Interest is earned on certain loans to subsidiaries.

The Company received £162 million (2009: £142 million) for licensing the Sky brand name to subsidiaries. The Company received no income (2009: £1 million) for leasing investment property to subsidiaries.

In 2009 the Company sold its investment properties for the consideration of £29 million. The properties were sold to British Sky Broadcasting Limited, a wholly owned subsidiary of the Company.

The Company received dividends during the year from subsidiaries totalling £100,000 (2009: £556 million).

Group financial record – unaudited

Consolidated results

Below is selected financial information for the Group under IFRS as at and for each of the five years ended 30 June 2010, derived either from the audited consolidated financial statements included in this Annual Report or from the Group's historical Annual Reports.

Consolidated Income Statement	Year ended 30 June 2010 £m	Year ended 30 June 2009 £m	Year ended 30 June 2008 £m	Year ended 30 June 2007 £m	Year ended 30 June 2006 £m
Retail subscription	4,761	4,177	3,765	3,402	3,154
Wholesale subscription	238	206	181	208	224
Advertising	319	308	328	352	342
Easynet	203	202	178	159	79
Installation, hardware and service	174	235	276	212	131
Other	217	231	224	218	218
Revenue[i]	**5,912**	**5,359**	**4,952**	**4,551**	**4,148**
Operating expense[ii]	(5,085)	(4,546)	(4,228)	(3,736)	(3,271)
Litigation settlement income	269	–	–	–	–
Operating profit	**1,096**	**813**	**724**	**815**	**877**
Share of results of joint ventures and associates	32	19	15	12	12
Investment income on litigation settlement	49	–	–	–	–
Investment income	3	35	47	46	52
Finance costs	(122)	(220)	(177)	(149)	(143)
Profit on disposal of joint venture	–	–	67	–	–
Impairment of available-for-sale investment	–	(191)	(616)	–	–
Profit on disposal of available-for-sale investment	115	–	–	–	–
Profit before tax	**1,173**	**456**	**60**	**724**	**798**
Taxation	(295)	(197)	(187)	(225)	(247)
Profit (loss) for the year	**878**	**259**	**(127)**	**499**	**551**
Net profit (loss) recognised directly in equity	61	134	187	(124)	(38)
Total comprehensive income for the year	**939**	**393**	**60**	**375**	**513**
Earnings (loss) per share from profit (loss) for the year (in pence)					
Basic	50.4p	14.9p	(7.3)p	28.4p	30.2p
Diluted	50.1p	14.8p	(7.3)p	28.2p	30.1p
Dividends declared per share (in pence)	19.4p	17.6p	16.8p	15.5p	12.2p

Consolidated Cash Flow Statement	Year ended 30 June 2010 £m	Year ended 30 June 2009 £m	Year ended 30 June 2008 £m	Year ended 30 June 2007 £m	Year ended 30 June 2006 £m
Cash and cash equivalents	649	811	632	435	816
Purchase of plant, property, equipment and intangible assets	444	400	339	356	212

Consolidated Balance Sheet	30 June 2010 £m	30 June 2009 £m	30 June 2008 £m	30 June 2007 £m	30 June 2006 £m
Non-current assets	2,818	2,632	2,384	2,557	1,504
Current assets	1,986	1,937	1,698	1,363	2,283
Total assets	4,804	4,569	4,082	3,920	3,787
Current liabilities	(1,699)	(2,194)	(1,893)	(1,499)	(1,547)
Non-current liabilities	(2,545)	(2,439)	(2,357)	(2,374)	(2,119)
Net assets (liabilities)	560	(64)	(168)	47	121
Number of shares in issue (in millions)	1,753	1,753	1,753	1,753	1,791

Statistics	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008 (In thousands)	Year ended 30 June 2007	Year ended 30 June 2006
Distribution of Sky Channels					
DTH homes	9,860	9,442	8,980	8,582	8,176
Cable homes(iii)	4,312	4,271	1,248	1,259	3,898
Total Sky pay homes	**14,172**	**13,713**	**10,228**	**9,841**	**12,074**
DTT homes(iv)	10,200	9,900	9,700	9,139	6,402
Sky Broadband homes	2,624	2,203	1,628	716	–
Sky Talk homes	2,367	1,850	1,241	526	–
Average number of full-time equivalent employees	16,439	14,922	14,145	13,087	11,216

Notes:

(i) *To provide a more relevant presentation, management has chosen to re-analyse the revenue categories from those previously reported. Easynet revenue is shown separately and other revenue now principally includes income from Sky Bet, technical platform service revenue and our online portal.*

Included within retail subscription revenue for the year ended 30 June 2009 is £36 million of additional revenue representing amounts invoiced in prior years which did not meet revenue recognition criteria under IFRS until March 2009.

(ii) *Included within operating expense for the year ended 30 June 2010 is £32 million of expense relating to a restructuring exercise of which £22 million related to the impairment of assets associated with Picnic (the potential launch of a subscription television service on DTT) and £10 million related to reorganisation costs and redundancy payments. Also included within operating expense for the year ended 30 June 2010 is £1 million (2009: £3 million, 2008: £21 million) of expense relating to legal costs incurred on the Group's claim against EDS which provided services to the Group as part of the Group's investment in customer management systems software and infrastructure, and a £5 million credit (2009: nil) related to the cancellation of accounts payable on settlement of the claim against EDS.*

Included within operating expense for the year ended 30 June 2008 is £7 million of expense relating to a restructuring exercise undertaken following a review of operating costs.

Included within operating expense for the 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.

(iii) *The number of cable homes is as reported to us by the cable operators. Between February 2007 and November 2008, the reported number of cable homes reflects the impact of Virgin Media ("VM") ceasing to carry Sky's Basic Channels on its platform. A new agreement was reached in November 2008 and VM has now resumed carriage of the Sky Basic Channels.*

(iv) *The Digital Terrestrial Television ("DTT") homes number consists of the UK Office of Communications' ("Ofcom's") estimate of the number of homes where DTT is the only digital TV platform supplying services and includes Top Up TV DTT homes. The number of DTT homes for all periods disclosed above is based on Ofcom's Digital Television Update published quarterly in arrears. Latest data available for the year ended 30 June 2010 is at 31 March 2010.*

Factors which materially affect the comparability of the selected financial data

EDS Litigation settlement

During fiscal 2010, EDS and the Group fully and finally settled the litigation between them and all related claims (including for damages, costs and interest) for a total amount of £318 million. For further details see note 4 to the consolidated financial statements.

Available-for-sale investment

During fiscal 2010 we disposed of part of our equity investment in ITV and recognised a profit on disposal of £115 million. For further details see note 6 to the consolidated financial statements.

During fiscal 2009, we recorded an impairment loss of £191 million (fiscal 2008: £616 million) in the carrying value of our equity investment in ITV.

Business combinations

During fiscal 2008, we completed the acquisition of 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. 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. 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 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). 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 note 24 to the consolidated financial statements.

Non-GAAP measures

Reconciliation of revenue to adjusted revenue

for the year ended 30 June 2010

	Notes	2010 £m	2009 £m	2008 £m
Revenue		**5,912**	**5,359**	**4,952**
Recognition of deferred revenue	2	–	(36)	–
Adjusted Group revenue		**5,912**	**5,323**	**4,952**

Reconciliation of operating profit to adjusted operating profit

for the year ended 30 June 2010

	Notes	2010 £m	2009 £m	2008 £m
Operating profit		**1,096**	**813**	**724**
Litigation settlement income relating to claim against EDS	4	(269)	–	–
Legal costs relating to claim against EDS	3	1	3	21
Cancellation of accounts payable on settlement of claim against EDS	3	(5)	–	–
Costs related to restructuring exercise	3	32	–	7
Recognition of deferred revenue	2	–	(36)	–
Adjusted operating profit		**855**	**780**	**752**

Reconciliation of cash generated from operations to adjusted free cash flow

for the year ended 30 June 2010

	Notes	2010 £m	2009 £m	2008 £m
Cash generated from operations	27	**1,634**	**1,205**	**997**
Interest received		57	47	43
Taxation paid		(320)	(178)	(163)
Dividends received from joint ventures and associates		30	20	11
Net funding to joint ventures and associates		(1)	(3)	(6)
Purchase of property, plant and equipment		(261)	(261)	(215)
Purchase of intangible assets		(183)	(139)	(124)
Interest paid		(156)	(217)	(165)
Free cash flow		**800**	**474**	**378**
Litigation settlement income relating to claim against EDS (after tax)	4	(229)	–	–
Legal costs relating to claim against EDS	3	1	3	21
Purchase of freehold land		57	24	–
Receipt on closure of joint venture	15	(3)	–	–
Cash paid related to restructuring exercise		–	7	–
Adjusted free cash flow		**626**	**508**	**399**

SHAREHOLDER INFORMATION

Annual General Meeting
The Company's Annual General Meeting will be held on Friday 22 October 2010 at 11:00am at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE.

Financial calendar
Results for the financial year ending 30 June 2011 will be published:
Q1 22 October 2010
Q2 27 January 2011
Q3 28 April 2011
Q4 4 August 2011

The Sky website
Shareholders are encouraged to visit the Sky website www.sky.com which has a wealth of information about the Company. There is a section designed specifically for investors at www.sky.com/corporate where investor and media information can be accessed. This year's Annual Report and Annual Review and prior year documents can be viewed.

Share price information
The Company's share price can be found on the Company's corporate website at www.sky.com/corporate.

Shareholder enquiries
The Company's shareholder register is maintained by its Registrar, Equinti. Shareholders should contact Equiniti in relation to all administrative enquiries relating to their shares, such as a change of personal details, the loss of a share certificate or an out-of date dividend cheque. Alternatively, shareholders can access and view their shareholding and update their details at www.shareview.co.uk.

Shareholders can contact Equiniti at:
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone: 0871 384 2091*
Telephone number from outside the UK: +44 121 415 7567

* *Calls to the above number are charged at 8p per minute from a BT landline. Other telephony providers' costs may vary. Lines are open from 8.30am to 5.30pm Monday to Friday.*

Electronic shareholder communication
In accordance with the provisions of the Companies Act 2006 and the Company's Articles of Association, the Company is permitted to use its corporate website as the main way to communicate with shareholders, sending out Annual Reports only to those who have opted to receive a paper copy. This reduces our impact on the environment, minimises waste and reduces costs. It also enables shareholders to keep updated with developments at Sky as they happen by accessing our website.

Shareholders who have opted to receive shareholder communications in paper form are encouraged to receive these electronically in future by registering at www.shareview.co.uk. Shareholders can also change their instructions at any time by contacting Equiniti Limited.

Dividends
Shareholders can have their dividends paid directly into a UK bank or building society account with the tax voucher sent direct to their registered address. Please contact Equiniti for a dividend mandate form.

The Company also operates a consolidated tax voucher service for those shareholders who have chosen to receive dividends directly into their bank account. A single consolidated tax voucher will be mailed by the end of November each year, to coincide with the final dividend payment. Full details are available at www.sky.com/corporate.

Overseas dividend payments
A service has been established to provide shareholders in over 30 countries worldwide with the opportunity to receive their dividends in their local currency. For a small flat-rate fee, shareholders can have their dividends automatically converted from Sterling and paid into their nominated bank account, normally within five working days of the dividend payment date. For further details, please contact Equiniti on +44 121 415 7567.

Dividend Reinvestment Plan
The Company operates a Dividend Reinvestment Plan ("DRIP") which enables shareholders to buy the Company's shares on the London stock market with their cash dividend. Further information about the DRIP is available from Equiniti. The helpline number is 0871 384 2268 from inside the UK and +44 121 415 7173 from overseas.

ShareGift
Shareholders who only have a small number of shares whose value makes it uneconomic to sell them may wish to consider donating them to charity through ShareGift, the independent charity share donation scheme (registered charity no. 1052686). Further information about ShareGift may be obtained from Equiniti or from ShareGift on 020 7337 0501 or at www.sharegift.org. There are no implications for capital gains tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to claim income tax relief.

Shareholder fraud
Fraud is on the increase and many shareholders are targeted every year. If you have any reason to believe that you may have been the target of a fraud, or attempted fraud in relation to your shareholding, please contact Equiniti immediately. To reduce the risk of fraud happening to you please see our list of 'preventing shareholder fraud tips' in the shareholder information section of our website at www.sky.com/corporate.

American Depositary Receipts ("ADRs")
On 30 April 2010, the Group announced its intention to delist its American Depositary Shares ("ADSs") from the New York Stock Exchange and to terminate its registration and reporting obligations under the Securities Exchange Act of 1934. Each ADS represents four ordinary shares, evidenced by ADRs. On 19 May 2010 the listing of the Company's ADSs on the New York Stock Exchange terminated (please see page 27). The Company maintains its ADR facility as a Level 1 ADR programme as described below.

The Company's ADR programme trades on the over-the-counter ('OTC') market in the US. The Company's ADRs are quoted on the OTC market's highest tier, International PremierQX. More information can be obtained from, http://www.otcqx.com. ADRs are quoted in US dollars and trade just like any other US security. The Company has a sponsored Level 1 ADR programme for which The Bank of New York Mellon acts as Depositary. One ADR represents four ordinary shares.

All enquires relating to the Company's ADRs should be addressed to:

BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516
USA
Telephone # for domestic callers: +1-888-BNY-ADRs (US Domestic)
International callers can call: +1-201-680-6825
email: shrrelations@bnymellon.com

Company's registered office:
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Telephone 0870 240 3000
Overseas +44 20 7705 3000

Company registration number
2247735

Chartered Accountants and Statutory Auditors
Deloitte LLP
2 New Street Square
London
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St. Andrew's Square
Edinburgh EH2 2YB

Solicitors
Herbert Smith LLP
Exchange House
Primrose Street
London EC2A 2HS

GLOSSARY OF TERMS

Useful Definitions	Description
365 Media	365 Media Group Limited
ADS	American Depositary Share (each ADS currently represents four ordinary shares of BSkyB)
Bonus channel	A channel provided to a customer in addition to one or more subscription channels, but at no incremental cost to the customer
BSkyB or the Company	British Sky Broadcasting Group plc
Churn	The number of customers over a given period that terminate their subscription in its entirety, net of former customers who reinstate their subscription in that period (where such reinstatement is within a twelve month period of the termination of their original subscription), expressed as an annualised percentage of total average customers for the period
Customer	A subscriber to a DTH service
DSL	Digital Subscriber Line
DTH	Direct-to-Home: the transmission of satellite services and functionality with reception through a minidish. The Group also retails certain Sky Channels to a limited number of DSL subscribers (references throughout to "DTH subscribers" include DSL subscribers)
DTT	Digital Terrestrial Television: digital signals delivered to homes through a conventional aerial, converted through a set-top box or integrated digital television set
EPG	Electronic Programme Guide
ESOP	Employee Share Ownership Plan
ESPN	Entertainment and Sports Programming Network broadcasting the ESPN, ESPN Classic, ESPN America and ESPN HD Channels
Fiscal year or fiscal	Refers to the twelve months ended on the Sunday nearest to 30 June of the given year
Freeview	The free DTT offering available in the UK
GAAP	Generally Accepted Accounting Principles
The Group	BSkyB and its subsidiary undertakings
HD	High Definition Television
HMRC	Her Majesty's Revenue and Customs
IFRS	International Financial Reporting Standards
IP	Internet Protocol: the mechanism by which data packets may be routed between computers on a network
IPTV	Internet Protocol Television
LLU	Local Loop Unbundling: a process by which BT's exchange lines are physically disconnected from BT's network and connected to other operators' networks. This enables operators other than BT to use the BT local loop to provide services to customers
Minidish	Satellite dish required to receive digital satellite television
MPF	Metallic Path Facilities which occur where a single communications provider uses the local loop to provide both broadband and voice services over its network
Multiroom	Installation of an additional set-top box in the household of an existing customer
Ofcom	UK Office of Communications
PL	Premier League
Premium Channels	The Sky Premium Channels and the Premium Sky Distributed Channels

Premium Sky Distributed Channels	Disney Cinemagic (& HD), MUTV, Chelsea TV and (until June 2010 only) Music Choice Extra
PVR	Personal Video Recorder: satellite decoder which utilises a built-in hard disk drive to enable viewers to record without videotapes, pause live television and record one programme while watching another
RCF	Revolving Credit Facility
Set-top box	Digital satellite equipment, responsible for receiving, converting and sending the picture and sound of a broadcast to the associated television set
Sky	British Sky Broadcasting Group Plc and its subsidiary undertakings
Sky+	Sky's fully-integrated PVR and satellite decoder. This includes Sky+ decoders
Sky+HD	High Definition box with PVR functionality, formerly known as Sky HD
Sky Active	The brand name for Sky's transactional interactive television services, including customer services, games, betting and messaging
Sky Basic Channels	Sky1, (and its simulcast version, Sky1 HD), Sky2, Sky3, Sky News (and its simulcast version Sky News HD), Sky Travel (until June 2010 only), Sky Real Lives (and its multiplex versions, Sky Real Lives +1 and Sky Real Lives 2 and the simulcast Sky Real Lives HD), Sky Sports News, Sky Arts 1 and Sky Arts 2 (including their simulcast versions Sky Arts 1 HD and Sky Arts 2 HD), Sky Vegas, Sky Poker.com
Sky Bet	Sky's betting services, provided through set-top boxes, the internet and via phone
Sky Broadband	Home broadband service previously provided exclusively for Sky digital customers but now extended to customers who do not take a television service from Sky. UK Online customers are excluded from quoted subscriber figures
Sky Box Office	Our pay-per-view service offering movies, sporting events and concerts
Sky Channels	Television channels wholly owned by the Group, being the Sky Basic Channels and Sky Premium Channels
Sky Distributed Channels	Television channels owned and broadcast by third parties, retailed by the Group to DTH customers
Sky Premium Channel Package	DTH subscription package which includes one or more of the Sky Premium Channels
Sky Premium Channels	Sky Movies Pack 1 (Sky Movies Comedy (& HD), Sky Movies Classics, Sky Movies Modern Greats (& HD), Sky Movies Family (& HD) and Sky Movies Screen 1 (& HD)), Sky Movies Pack 2 (Sky Movies Action/Thriller (& HD), Sky Movies Indie (& HD), Sky Movies SciFi/Horror (& HD), Sky Movies Drama (& HD) and Sky Movies Screen 2 (& HD)) and Bonus Channels (Sky Movies Premiere (& HD), Sky Movies Premiere +1 and Sky Movies Showcase (& HD)), Sky Sports 1 (& HD1), Sky Sports 2 (& HD2), Sky Sports 3 (& HD3) and Sky Sports 4 (& HD4). Channels have an HD simulcast where specified
Sky Talk	Home telephony service provided for Sky digital subscribers and now extended to customers who do not take a television service from Sky
SMATV	Satellite Master Antenna Television
SMPF	Shared Metallic Path Facility
Transponder	Communication devices on satellites which send programming signals to minidishes
Viewing share	Number of people viewing a channel as a percentage of total viewing audience
VM	Virgin Media
WAN	Wide Area Network: Companies link networks at different sites over the internet to form a secure WAN

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