British Sky Broadcasting Group plc

Annual Report 2011

We want to be first choice for entertainment and communications.

Sky is a valued part of everyday life in more than 10 million homes. We entertain, excite and inspire customers with a great choice of high-quality television in high definition. We make technology simple and put viewers in control. We connect people to each other and to the world with our broadband and phone services.

Because we never forget that Sky is a choice, we put customers first and work hard to earn their trust. We make our products affordable so millions can join in. And we back it all up with a commitment to exceptional customer service.

Seeing the bigger picture is part and parcel of the way we do business. That's why we're committed to doing the right thing and playing our part in the communities where we live and work.

We strive to be the best for our customers and our people, and to make a positive contribution to life in the UK and Ireland. We believe that focusing on long-term sustainability is the best way to achieve lasting success and create value for shareholders.

We're always looking for ways to improve. That spirit has made us what we are today, and it will drive us to become what we want to be tomorrow.

We believe in better.

Chairman's statement 3

Directors' report – Business review

Chief Executive Officer's statement 4

Our performance 6

Review of the business 8

Corporate responsibility 18

People 22

Principal risks and uncertainties 24

Directors' report – Financial and operating review 29

Directors' report – Governance

Board of Directors 36

Corporate governance report 38

Other governance and statutory disclosures 46

Report on Directors' remuneration 49

Consolidated financial statements

Statement of Directors' responsibility 59

Independent Auditor's report 60

Consolidated financial statements 61

Group financial record 118

Non-GAAP measures 121

Shareholder information 122

Glossary of terms 124

Forward looking statements

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 2011. 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.

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 – Business review – 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

The last year has again presented a challenging environment for consumer businesses, as families are squeezed by higher prices and lower disposable income. Against that backdrop, Sky has continued to perform well, with a strong operational and financial performance across the board. Furthermore, our business is well placed to continue to grow in the future, as we take advantage of the significant potential in the entertainment and communications marketplace.

The relationships we have with our customers are the foundation on which our business has been built. That is why reaching our long-term target of 10 million customers this year was an important milestone in the Company's progress, as well as an endorsement of the quality, value and choice that we offer to our customers.

But more important than any single target is the way that the Company continues to transform itself. Since setting the goal of 10 million customers in 2004, we have moved from being largely a single-product company to become a leader in a much broader field of opportunity, with a diverse set of entertainment and communications products. In parallel, we have further developed our high-quality content offering, set the pace of innovation across the industry and grown our capabilities as an organisation by developing a strong culture of continuous improvement. Those achievements are the consequence of a clear, consistent plan and excellent execution over several years by a highly focused management team.

Today, more families are choosing Sky for a greater variety of products than ever. As we look to deepen our relationships with those customers, we recognise also the importance of making a positive contribution to the community in which we operate. Over the last year, we have continued to develop our work in three key areas of focus: helping to protect the environment; improving lives through sport; and opening up the arts to more people.

On 13 July 2011, News Corporation – where I am an Executive Director – withdrew its proposal to acquire the shares in Sky that it does not already own. In doing so, News Corporation stated that it remains a committed, long-term shareholder in Sky, proud of the success that the Company has achieved over many years, and of News Corporation's contribution to it.

As well as reiterating that commitment and support, I would like to take this opportunity to thank the excellent team at Sky and the entire Board for the focus that they have shown throughout the last year. It is because of their talent and dedication that the Company continues to deliver for customers and to achieve such strong progress for shareholders.

In reflection of the Company's continued strong performance, and our confidence in the opportunity ahead, the Board proposes a 20% increase in the full year dividend to 23.28 pence per share and intends to return £750 million to shareholders through a share buy-back programme over the next 12 months. On behalf of the Board, I would like to thank all shareholders for their continued support.

James Murdoch
Chairman
28 July 2011

Chief Executive Officer's statement

Our goal at Sky is to build a larger and more profitable business for the long term and, in doing so, to create the greatest sustainable value for shareholders. We believe there is significant potential for value creation in the entertainment and communications marketplace in which we operate. And, increasingly, we can grow in a variety of different ways: adding more customers; selling more products; and developing our other businesses.

The approach that we have taken over a number of years is designed to deliver the right balance between growth and returns. We invest sensibly where we see attractive opportunities and where customers see value, while staying equally focused on the efficiency of our operations. It is this approach that will best deliver sustainable growth in revenue, profit and cash flow over time.

Looking back at our performance during 2011, our results show that our strategy is working. Against the backdrop of a challenging economic environment, Sky has continued to perform well on all fronts, with strong demand across the board, good progress on our priorities and excellent financial results.

More customers are choosing Sky than ever and they are taking a greater variety of products from us. During the year, we added 3.8 million subscription products to take the total to more than 25 million. Within that, more than 400,000 new customers joined Sky, which means that we now have a direct subscription relationship with almost 10.3 million households in the UK and Ireland.

Importantly, we never forget that such success comes only when consumers choose to reward us with their business. Customers always have a choice and we must walk to their drumbeat. For us, that means serving them with a set of entertainment and communications products which meet their needs better than anyone else.

The combination of great content and great innovation has been a driving force behind our growth over recent years: helping to build loyalty among existing customers; attracting new customers; and driving take-up of new products. It was fundamental to us passing the milestone of 10 million homes this year and it will remain fundamental to our growth in the future.

These strengths have also proved durable in a tougher economic environment. At a time when customers are facing pressure on household budgets, we have found that many are staying in more and are looking for better entertainment in the home. So we're investing sensibly in areas that play to our advantage and create more reasons to choose Sky.

INVESTING IN CONTENT AND INNOVATION

A key element of this approach is continued investment in stand-out content in order to differentiate further the pay-TV experience. As part of this, we set out this year to create a step change in our entertainment offering to complement our existing strengths in sport, news and movies. Our new channel, Sky Atlantic, has become the UK home of HBO and much-anticipated shows such as *Game of Thrones* and *Boardwalk Empire*. The addition of Sky Living has further strengthened our entertainment line-up and we have stepped up our commitment to original British programmes with home-grown productions like *Mad Dogs*, *Got to Dance* and *The Runaway* for Sky 1.

In sport, we marked the 20th anniversary of Sky Sports with an outstanding year including the Ashes series from Australia, more live Premier League matches, live coverage of the Ryder Cup and Masters in golf. Sky Arts continues to provide an unrivalled range of arts programming to more than two million viewers a month, while Sky News has offered exceptional coverage of the year's momentous events around the world.

Alongside a better choice of content, we are innovating to improve the experience of watching television, both at home and increasingly on the move. Today, almost four million customers enjoy the superior picture and sound quality of our high definition (HD) service, which now offers more than 50 HD channels. The capability and connectivity of the Sky+HD box has also allowed us to open up new opportunities for customers, with the launch of Europe's first 3D television channel and the introduction of our full video on demand service, Sky Anytime+.

Beyond the living room, our new Sky Go service allows customers to get more value from their subscription by accessing live TV on additional devices such as PCs, laptops, tablets and smartphones. And our acquisition of The Cloud, the UK's leading public Wi-Fi network, will allow us to connect customers to our content in thousands of locations across the UK.

In a highly competitive environment, we have remained the UK's fastest growing provider of home communications services as customers respond to the value, reliability and simplicity of our offering. We continue to benefit from the trend for customers to take multiple products from a single, trusted provider, with more than one in four customers now choosing to take all three of TV, broadband and telephony from Sky. There remains a significant opportunity for continued growth both within our existing customer base and beyond, following our decision to make our home communications services available on a standalone basis.

Our ability to invest in areas of advantage, such as content and innovation, is underpinned by a strong focus on operational efficiency. We have continued to drive down costs across the business in the last year, for example by simplifying processes in our customer operations teams, and this will remain a priority as we move forward.

DELIVERING EXCELLENT FINANCIAL PERFORMANCE

This approach has delivered an excellent financial performance for the year, with double-digit growth across the board despite the challenging consumer environment. Group revenues from continuing operations grew by 16% to £6,597 million, with strong performances in wholesale, advertising and Sky Bet as well as our retail business. Adjusted operating profit from continuing operations rose by 23% to £1,073 million and we delivered adjusted basic EPS from continuing operations of 41.6 pence, an increase of 30% on the previous year. Adjusted free cash flow from continuing operations rose by 51% to £869 million.

These results represent the continuation of a trend in which we have added almost £2 billion of revenue in the last three years, as well as growing adjusted basic EPS from continuing operations at an annualised rate of 16% and more than doubling adjusted free cash flow. This sustained performance demonstrates that we are balancing investment, growth and returns across both the economic and investment cycles.

In a reflection of the Company's strong financial position, the Board has proposed a 20% increase in the full year dividend, continuing our track record of dividend growth. Additionally, we have announced our intention to return £750 million to shareholders through a share buy-back programme over the next 12 months. News Corporation has agreed to participate in the buy-back. The effect of that agreement is to provide that there will be no change in News Corporation's economic or voting interests in the Company as a result of the share buy-back programme.

Looking ahead, with a clear plan and a consistent set of priorities, we are confident in the long-term opportunity for the business. We expect our growth will benefit from being more broadly based, with four key sources of growth in the future. First, we will continue to grow the number of pay TV households in the UK and Ireland. Second, we will increase penetration of our premium TV products, such as HD, Sky Sports and Sky Movies. Third, we will expand our presence in home communications, building on the considerable success of the last year. And finally, we will continue to grow our other businesses, such as advertising, wholesale and Sky Bet.

We expect that the environment will remain challenging for all consumer businesses as government action to reduce the budget deficit continues to take effect. Against that backdrop, we intend to maintain the same consistent approach that has served us well in recent years. That means investing sensibly for the future and staying focused on delivering the financial returns from those investments. At the same time, we will continue to focus hard on operational efficiency and stay flexible on costs.

MAKING A POSITIVE CONTRIBUTION

At Sky, we recognise that our future success is based on valuable, long-term relationships with millions of families. So we understand the importance of being a responsible business and making a positive contribution to life in the UK and Ireland. We are committed to doing the right thing in our day-to-day business and to working with our people and our customers to play our part in the communities in which we operate. Through our Bigger Picture programme, the focus of our work is on three areas where we believe we can make a positive difference: helping to tackle climate change; improving lives through sport; and opening up the arts to more people. We have made good progress this year and we have an appetite to do more in the future.

Our Sky Rainforest Rescue campaign, a partnership with WWF, is progressing well towards its fundraising target of £4 million to help save one billion trees in the Amazon rainforest against the threat of deforestation. To raise awareness of the campaign, we broadcast a week of environment-themed programming, including the specially commissioned series *Rooftop Rainforest* on Sky 1 HD.

In sport, our partnership with British Cycling is in its third year and on track to achieve our ambition of getting one million more people cycling regularly. Over 200,000 people of all ages took part in our second summer of Sky Ride events across the UK and we have expanded the programme to include a total of 21 events in summer 2011. Meanwhile, over a third of the UK's secondary schools have now joined in with the Sky Sports Living for Sport programme, which aims to inspire young people to be the best they can be. Research among teachers shows that over 80% of young people taking part have shown increased self-confidence and improvements in attitude towards learning. As a leading investor in sport, we are also extending our support for British and Irish talent with a new scheme to sponsor a number of athletes over the next 18 months.

In the arts, we've launched a major new programme, Sky Arts Ignition, which will work with arts organisations to support the creation of new works, as well as providing five bursaries for young artists each year. And our Sky Arts channels have continued to open up the arts to more people, by bringing, for example, coverage of some of the UK and Ireland's best literary and music festivals to a wider audience.

Initiatives such as The Bigger Picture are grounded in a strong commercial rationale. We believe strongly that building trust and engagement among our customers, our people and the wider community, is a vital foundation of long-term, sustainable success. We will look to grow our contribution still further in the future.

Finally, throughout the year, Sky was the subject of a proposal from News Corporation, our largest shareholder, about a possible offer to take full ownership of Sky. That proposal was subsequently withdrawn in July 2011.

It is to the credit of the entire team at Sky that, throughout this period, the Company stayed focused on executing our plan and delivering for our customers. I would like to thank all of our employees for their commitment, energy and creativity, and for the contribution that they make to our Company's success every day.

Jeremy Darroch
Chief Executive Officer

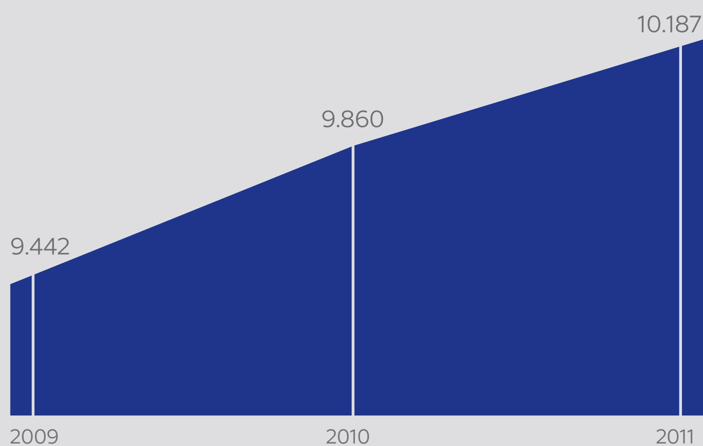
Our performance

We have a clear and consistent strategy: to attract new customers to Sky; sell more products and services to our existing customers; and develop our other businesses. This year, we continued to see good demand across our product portfolio as customers responded to the great quality and value that we offer. This 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 the Group's performance against its core strategic priorities, which include both operational and financial measures. In addition, we have developed 10 environmental KPIs. Our performance against these 10, together with a comprehensive review of our environmental initiatives can be found in the Bigger Picture Review at www.sky.com/biggerpicturereview2011.

OPERATIONAL KEY PERFORMANCE INDICATORS

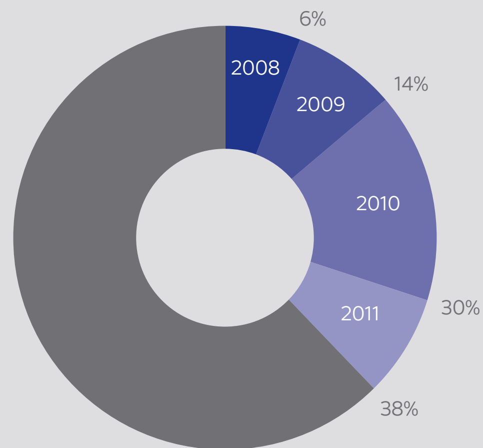
TV CUSTOMER BASE (MILLION)



Description
A TV customer is defined as a subscriber to one or more of our DTH, Sky by Wire, Sky Player or Sky Mobile TV services. This number excludes wholesale subscribers to our channels.

Analysis
Our total TV customer base is a key determinant of the Group's value. In 2011, we added 327,000 net new TV customers, growing the total base by 3%.

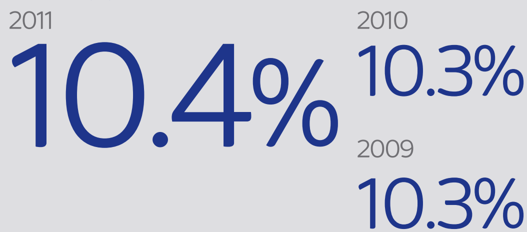
HD PENETRATION (%)



Description
HD penetration is defined as the percentage of TV 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 2011 we added 883,000 HD customers.

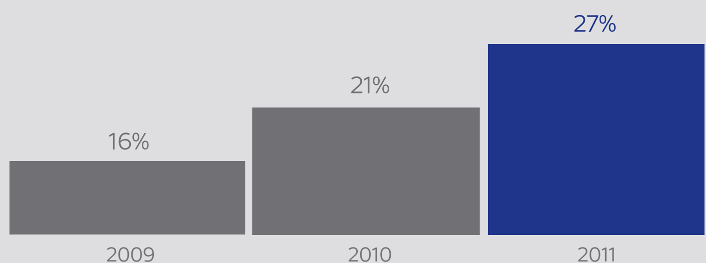
CHURN (%)



Description
Churn represents the number of DTH customers over a given period who 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 DTH customers.

Analysis
Churn is a good measure of customer satisfaction, which is a key driver of value for our business. Churn for 2011 was stable at 10.4%.

CUSTOMERS TAKING EACH OF TV, BROADBAND AND TELEPHONY (%)

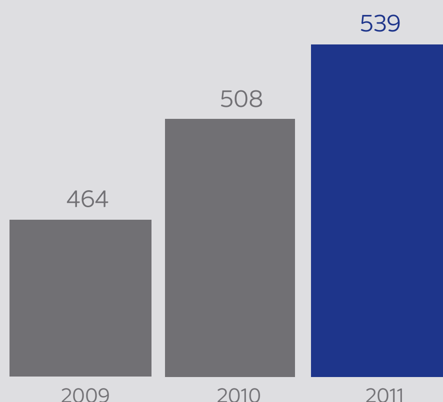


Description
The percentage of TV customers taking any of our TV products and both a Sky Broadband and a Sky Talk product. Customers may also opt for our line rental product.

Analysis
This is an important measure for our business, with higher penetration positively impacting ARPU and customer loyalty. At 30 June 2011, 2.8 million customers chose each of TV, broadband and telephony, up 37% from the prior year.

FINANCIAL KEY PERFORMANCE INDICATORS

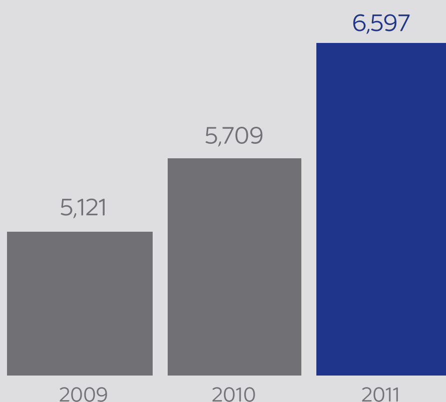
ARPU (£)



Description
Average revenue per user (ARPU) is calculated by taking the amount spent by the Group's residential customers (ex-VAT), divided by the average number of residential DTH 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 £31 as customers rewarded us with more of their business.

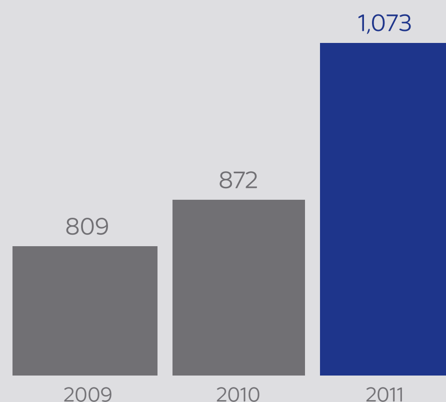
ADJUSTED GROUP REVENUE (£M)[1,3]



Description
Adjusted Group revenue includes revenue from retail subscriptions, wholesale revenue, advertising, and installation, hardware and service revenue. It is adjusted for any exceptional items.

Analysis
Adjusted Group revenue is a key measure of how the Group is delivering on its strategy to grow the business. In 2011, adjusted revenue grew by £888 million to reach £6,597 million.

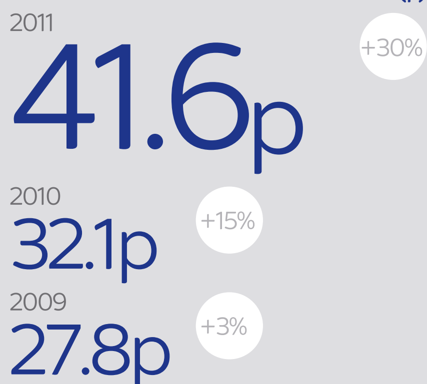
ADJUSTED OPERATING PROFIT (£M)[1,3]



Description
Adjusted operating profit for the Group excludes any exceptional or one-off items.

Analysis
Adjusted operating profit is a key measure of the underlying business performance. It increased by 23% in 2011.

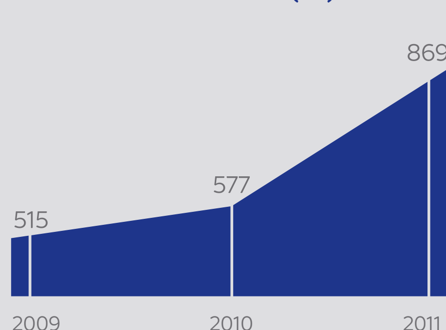
ADJUSTED BASIC EARNINGS PER SHARE (p)[1,2]



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.

Analysis
Adjusted basic EPS provides a measure of shareholder return that is comparable over time. Adjusted basic EPS increased by 30% to reach a record level of 41.6p.

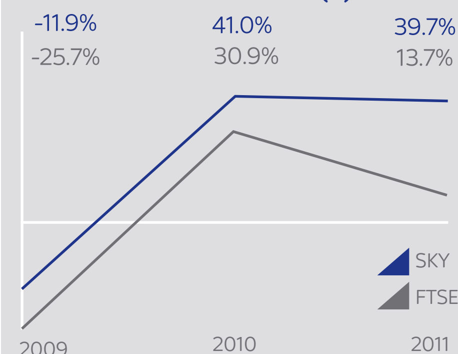
ADJUSTED FREE CASH FLOW (£M)[1,3]



Description
Adjusted free cash flow is defined as cash generated from operations after the impact of capital expenditure, net interest and tax paid, cash flows to and from joint ventures, excluding exceptional items.

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 51% as a result of higher profitability, strong working capital and lower net interest and tax payments.

TOTAL SHAREHOLDER RETURN (%)



Description
Total shareholder return (TSR) 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
TSR represents a comparable measure of shareholder return over time. On this basis, BSkyB shares performed 26 percentage points better than the FTSE 100 index in the year to 30 June 2011; our share price was influenced by the proposed offer by News Corporation.

[1] From continuing operations.
[2] For further details see note 11 of the consolidated financial statements.
[3] For a reconciliation of non-GAAP measures see page 121.

Business review
Financial review
Governance
Financial statements
Shareholder information
Glossary of terms

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 on a wholesale basis to third party operators for retransmission to their subscribers in the UK and Ireland. We retail channels (both our own and third parties') to our TV customers (see Glossary of terms). 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 2011, there were 10,187,000 TV Customers and 4,382,000 subscribers to our channels through operators to whom we wholesale certain of our channels, in the UK and Ireland. According to estimates of Ofcom, as at 31 March 2011 (the latest data available for the year ended 30 June 2011), there were 10,100,000 homes in the UK receiving certain of our channels free-to-air via DTT where DTT is the only digital TV platform supplying services (see "Distribution" below). As at June 2011, there were 107,000 standalone home communications customers.

Our total revenue from continuing operations in fiscal 2011 was £6,597 million (2010: £5,709 million), as set out in the table below.

For the year to 30 June	2011 £m	2010 £m
Retail subscription	5,455	4,761
Wholesale subscription	323	238
Advertising	458	340
Installation, hardware and service	112	174
Other	249	196
Revenue	**6,597**	**5,709**

We operate principally within the UK and Ireland, with activities conducted primarily from the UK. Our revenue from continuing operations principally arises from services provided to retail and wholesale customers within the UK, with the exception of £422 million (2010: £378 million) which arises from services provided in other countries, mainly Ireland.

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: +44 333 100 0333. A list of our significant investments is set out in note 34 to the consolidated financial statements.

CONTENT

We provide TV customers with a broad range of programming options. 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.

Currently, we own, operate, distribute and retail 30 Sky Channels via our DTH service (or 35 including multiplex versions of the Sky Channels, but excluding simulcast HD channels, Sky Insider (a channel available to Sky employees) and the business channel 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 147 partner 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 packages offered to DTH Customers as at 30 June 2011, were as follows:

Package	Partner Channels
Variety Pack	29
Style & Culture Pack	22
Children's Pack	18
Knowledge Pack	24
Music Pack	14
News & Events Pack	8
ROI Bonus Mix	16
Adult Pay-Per Night	9
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 currently 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 currently offer DTH customers the opportunity to subscribe to Sky Premium Channels without the need to subscribe to a "pack". The way that we package the Sky Basic Channels and the Sky

Distributed Channels will change on 1 September 2011. From that date we will offer our customers two packages: "Entertainment" and "Entertainment Extra".

On our 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 "UK Cable" 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, Challenge and Pick TV) unencrypted free-to-air via DTT in the UK as part of the Freeview offering (see "DTT Distribution" below).

We also operate a high definition TV ("HD") service which consists of over 50 HD channels including five Sky Sports channels, 11 Sky Movies channels, Sky 1 HD, Sky Living HD, Sky Atlantic HD, two Sky Arts channels, Sky News HD, two Sky Box Office HD channels and 30 HD channels provided by partner broadcasters.

Sky 3D offers entertainment and arts content as well as sport and movies to DTH customers with a 3D ready television. The channel is offered at no extra cost for DTH customers who subscribe to the Sky Premium 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 and Ireland (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 Replay, Nicktoons, Nick Jr, Nick Jr2, Nicktoons Replay, Nickelodeon HD, National Geographic Channel, National Geographic HD, Nat Geo Wild, Nat Geo Wild HD, Chelsea TV, MUTV, Comedy Central, Comedy Central Extra, Comedy Central HD, 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 and have a 50% equity interest in the venture which has been established to operate a new channel, Sky News Arabia, which is due to be launched in Spring 2012.

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.

DTH Customers 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 video on demand 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 Movies Premiere +1) is also broadcast as an HD simulcast and such HD channels are available to DTH customers of our Sky+HD service who are entitled to the corresponding standard definition channel. DTH Customers who take both of the Sky Movies packs and the Sky+HD service receive MGM HD without additional charge.

There are also over 400 films available for Sky Movies customers to download from Sky Player and over 600 from Sky Anytime+ (see "Sky Anytime+" and "Sky Player" below).

Sky Sports Channels

The Sky Sports Channels currently are Sky Sports 1, Sky Sports 2, Sky Sports 3, Sky Sports 4 and Sky Sports News. In addition, those channels are available in HD to DTH customers to our Sky+HD service who are entitled to the corresponding standard definition channel.

Sky Sports 1, Sky Sports 2, Sky Sports 3, Sky Sports 4 and Sky Sports News are all available online on Sky Player. Some content from those channels is also available on an on demand basis on Sky Player and Sky Anytime+.

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 in most cases Ireland), a range of sport including a number of football, rugby 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

Review of the business
continued

2008/09 to 2014/15 domestic football seasons; (ii) broadcast rights to the UEFA Champions League up to and including the 2014/15 season; (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 Aviva 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 Rugby 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.

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 18 movies each week in HD on a pay-per-view basis.

BASIC CHANNELS

Sky Basic Channels

Sky 1, Sky Living and Sky Atlantic together offer TV Customers access to a comprehensive range of subscription content that appeals to all ages and interests. Sky Atlantic was launched in February 2011 and, following Sky's exclusive output deal with HBO and series deals with Lionsgate Television, is the exclusive destination for many of the most hotly anticipated shows in television. Sky 1 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. Sky Living is targeted primarily at female viewers. During this financial year the channel aired its first ever in-house drama commission, "Bedlam" which achieved a cumulative audience of just under one million viewers on its debut.

Sky 1, Sky Living and Sky Atlantic are simulcast in HD and are also available on Sky Player and content from the channels is available on an on demand basis from Sky Player and on Sky Anytime+.

Sky Living Loves and Sky Living It complete the Sky Living family of channels. Sky 2 broadcasts primarily a catch-up schedule of programming from Sky 1 and is complemented by Sky 1's programming library and some exclusive content.

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.

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 DTH customers to our Sky+HD service. Individual programmes are available on an on demand basis from Sky Player and on Sky Anytime+.

Sky Bet 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.

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. We act as an advertising sales representative for certain of the Sky Distributed Channels and for the other channels, the channel owners generally sell their own advertising time (see "Advertising and Sponsorship" below).

DISTRIBUTION

We distribute our programming services directly to DTH Customers through the packages described above. Wholesale subscribers, by contrast, contract with wholesale operators, who 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.

We also make certain of our channels available free-to-air via the UK DTT platform as part of the branded "freeview" offering.

Statistics	Year ended 30 June 2011	Year ended 30 June 2010
Distribution of Sky Channels		
TV homes	10,187	9,860
Wholesale homes[(i)]	4,382	4,312
Total Sky pay homes	14,569	14,172
DTT homes[(ii)]	10,100	10,100

Notes:

(i) *The number of wholesale homes includes distribution of our "Freeview" channels by wholesale operators as part of a "Free TV" pack bundled with other products.*

(ii) *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 2011 is at 31 March 2011.*

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 "Affected Channels"). This decision brought 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 the Affected Channels on a wholesale basis to third parties which satisfy various minimum qualifying criteria (including financial, technical and security criteria).

The WMO Obligations specifies maximum prices that Sky may charge for Sky Sports 1 and/or Sky Sports 2. 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 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 the Affected Channels to each of BT, Top Up TV and VM for distribution via Digital Terrestrial TV and VM 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 VM 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 Obligations. The difference between that price and the rate card price set by Sky 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 23 November 2010, the CAT made an agreed Order extending the implementation of the WMO Obligations to a company called REAL Digital EPG Services Limited, in respect of distribution via DTH satellite.

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.

The appeal has now been heard at the CAT and judgment is awaited.

On 11 August 2010, Ofcom issued a decision that a term included in the agreement between Sky and Top Up TV for the supply of Sky Sports 1 and Sky Sports 2 to Top Up TV on WMO terms breached the conditions of Sky's broadcasting licences that implement the WMO Obligations (the "WMO Conditions"). On 14 December 2010, Ofcom issued a decision that a further term included in the same agreement between Sky and Top Up TV breached the WMO Conditions. Sky submitted appeals against these two Ofcom decisions, on 11 October 2010 and 14 February 2011 respectively. The two appeals will be heard together at the CAT in the Autumn of 2011.

In August 2010 Ofcom announced its decision to refer the supply and acquisition of certain Pay-TV movie rights and the supply and acquisition of Pay-TV packages including certain movie channels to the Competition Commission ("CC") for investigation. The CC's provisional findings are due to be published in August 2011.

DTH distribution

As at 30 June 2011, the total number of TV Customers in the UK and Ireland was 10,187,000, representing a net increase of 327,000 customers in the fiscal year. Churn was 10.4% in fiscal 2011 (2010: 10.3%). In fiscal 2011, we derived £5,455 million (83%) of our revenue from continuing operations from retail subscription revenue (2010: £4,761 million (83%)).

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 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.

We also offer a Sky+HD box. This is a set-top box that we have developed which contains two satellite tuners and an integrated PVR allowing programming to be recorded directly onto a hard-disk contained within the box. This enables DTH Customers to watch one live satellite programme (or a previously recorded programme)

Review of the business

continued

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 and an HD subscription receive a number of HD Channels which depends on the basic package to which they subscribe and the other premium channels they have chosen.

DTH Customers with a compatible Sky+ or Sky+HD box can also receive Sky Anytime TV at no extra cost (see "Sky Anytime TV" below).

We also offer our DTH Customers a multiroom subscription and the opportunity to purchase up to seven extra set-top 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.

Sky Anytime+ and Sky Anytime TV

Sky Anytime TV is an on demand service that provides access to selected programmes that are added each day 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 "Digital satellite reception equipment" above).

Sky Anytime+ was launched in October 2010. DTH Customers with certain Sky+ HD set-top boxes and Sky Broadband Unlimited or Everyday Lite are able to connect to the Sky Broadband network to access an extensive on demand service, providing even more choice and control to complement Sky+ and the Sky Anytime TV service. Once connected, DTH Customers have the opportunity to access an updating library of content which they can "pull" to their TVs to watch whenever they like. DTH Customers can access content including over 600 films, popular entertainment and drama series, documentaries and the arts. As well as offering content from Sky Movies, Sky Sports, Sky Arts, Sky Atlantic, Sky Living, Sky News and Sky 1, the service – which comes at no extra charge for subscribers to the relevant channels – offers a wide range of programming from partner broadcasters.

Sky Broadband

As at 30 June 2011, our broadband network covered almost 80% of UK households.

For homes covered by our broadband network, two different broadband products are available: Sky Broadband Everyday Lite and Sky Broadband Unlimited. Both products offer a maximum speed of up to 20Mb download speeds (depending on location) 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 a maximum speed of up to 8 Mb download speeds (depending on location) and 40GB monthly usage.

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

As part of a Sky Broadband subscription, we provide customers with a Wi-Fi capable DSL modem/router. We also offer installation and equipment repair and exchange services.

Sky Talk

Sky Talk is a telephony service available to homes 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) to UK landlines 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.

iText and Sky Active

We offer our viewers enhanced and interactive services. We offer enhanced broadcast applications behind a number of Sky Channels, including Sky Movies, Sky Sports, 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. We also offer certain interactive games and customer services.

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 Bet 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"); other fixed line distribution; and mobile networks

Sky Player

Customers can access a range of entertainment, sports and movies content with Sky Player. This offers streamed content to any PC or Mac with internet access and a compatible operating system. 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 Player is also available on Xbox and on Fetch TV Smart Boxes.

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 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.

Sky Go and Sky Mobile Applications

On 8 July 2011 Sky announced that, at no extra cost, DTH Customers can now watch live TV on the move with the launch of Sky Go, a new service which has launched for laptops, PCs, Macs, iPhone, iPad and iPod touch.

In addition we offer a range of Sky mobile applications including Sky Mobile TV (for simultaneous coverage of Sky's live sports channels), Sky+ to enable remote recording, Sky News for breaking news stories and video, Football and Cricket Score Centres and Sky Sports News for live scores and commentary. The applications are available on a range of compatible mobile handsets and across all mobile networks.

Wholesale distribution

In fiscal 2011, we derived £323 million in revenues from continuing operations from the wholesale distribution of our channels (2010: £238 million).

UK Cable

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 distributors on a wholesale basis for onward distribution to their subscribers.

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 certain of the Sky 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 Cable

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, Challenge and Pick TV, 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).

The free-to-air 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.

Review of the business

continued

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 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

Through our Product Research Group we constantly evaluate new technologies and potential new forms of distribution for our services, such as Internet Protocol ("IP") Television, emerging wireless technologies such as new variants of Wi-Fi and Wimax and the use of advanced spectrum technologies such as Software Defined Radio and the use of "white spaces" in broadcasting spectrum. As part of this evaluation work we may conduct various technical trials including trials involving selected groups of staff or customers.

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.

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 2011, we derived revenue from continuing operations of £458 million from advertising sales and sponsorship (2010: £340 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 online.

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 amongst other things a supply of content, for audiences for that content, for advertising sales and for customers to its TV 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 telecommunications 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 digitalisation of content, have facilitated a convergence between media and telecommunications 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 channels offered on our DTH service 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.

Following its acquisition of Amstrad in fiscal 2008, the Group designs, develops and sells SD and HD PVR set-top boxes.

Our set-top boxes use an EPG which has been and continues to be developed for us by NDS Limited ("NDS"). Historically our set-top boxes have used an operating system licensed from OpenTV, Inc., however, earlier in this fiscal year we deployed a new operating system into our HD capable set-top boxes. This operating system was developed in conjunction with NDS under the project name Darwin, and supports the Sky Anytime+ service, as well as providing a significantly more flexible platform for the development of additional new features and functionality. HD capable set-top boxes with the new operating system include an emulator which allows them to continue to run applications developed for the OpenTV operating system. This continues to ensure the universal availability of enhanced services to all DTH set-top boxes.

Encryption of digital services

We use VideoGuard conditional access technology to encrypt and decrypt digital television and audio services and to control access to certain channels on our DTH platform.

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 the threats of 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 last 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 constantly monitor and review other methods of piracy of our services that may be developed and where appropriate we deploy counter-measures to thwart such activities.

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. During 2011, VM replaced its own smart cards with a more secure version and we believe this action will have significantly reduced the amount of cable piracy in the UK.

On DTT the provision of our Sky Sports 1 and 2 channels is protected by the encryption system deployed on behalf of Top Up TV and BT.

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 service 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 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 Customers 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 32 transponders from SES Astra on SES satellites Astra 2A, 2B and 2D. We have also contracted, via an agreement with Arqiva, for capacity on five 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. Those 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,

Review of the business

continued

excluding business combinations, for the Group was £425 million in 2011. This included investments in core services; information systems infrastructure; broadcast infrastructure; broadband and telephony infrastructure; new product development; property; and investments relating to customer service improvements.

Sky began broadcasting from its new state-of-the-art production facility (Sky Studios) on 4 July 2011. The Group's total capital expenditure in relation to the Sky Studios project during the period to 30 June 2011 was £48 million. The Group expects to spend an additional £18 million in the period to 30 June 2012.

As is common with capital expenditure projects, 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, Sheffield, London and Leeds. We have announced that we are opening a new centre in Newcastle. 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.

The customer management centres also support 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.

On 8 February 2010 the Group announced that it had successfully placed a shareholding of approximately 10.4% in ITV 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 48.5 pence per ITV share resulted in aggregate consideration of approximately £196 million.

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 Group has a £750 million syndicated revolving credit facility ("RCF") with a maturity date of 30 July 2013.

There is an opportunity to request an extension of one or two further year(s) 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 6.100% senior unsecured notes due 2018.

In November 2008, the Group entered into an indenture in respect of US$600 million 9.500% 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. Ofcom also has a duty under the Broadcasting Acts to be satisfied that any person holding a broadcasting licence is fit and proper to hold those licences.

Licensees have an ongoing obligation 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.

Review of the business

continued

CORPORATE RESPONSIBILITY

The Bigger Picture is part of our approach to ensuring we are a responsible company, doing the right thing for all of our stakeholders – including our customers, people, suppliers, and the communities in which we live and work. It provides a framework for our activities in the UK and Ireland as well as for all of our operations. The key areas of the Bigger Picture are:

Operating responsibly and with regard to the needs of Sky's stakeholders

Fundamental to our approach are our day to day activities as a business: ensuring we treat our suppliers fairly, providing a great place for our people to work, and making our products accessible to all our customers. Our business is large and dynamic so it is important that every one of our business decisions and activities is carried out with the interests and expectations of the Sky community in mind.

Fostering a culture of doing the right thing throughout the business

We communicate widely through the business the importance of taking responsibility for our actions and behaving responsibly, the implications for Sky and for every individual within their role, and where relevant, developing policies and processes to guide our activities.

Providing trustworthy products and services that can be consumed with minimum risk

We ensure that our products are delivered in a responsible way so that our customers can be certain that they can trust our programming and consume it with minimum risk. We are transparent about the way our TV programming is produced, and provide options such as parental controls on our TV platform and online.

Contributing positively to our communities

Sky's recognisable brand, and our presence in over 10 million homes, provides us with a unique opportunity and responsibility to make a positive contribution to the communities in which we live and work. We focus our efforts in three areas where we believe we can make the most difference: Environment, Sport and Arts. We regularly scrutinise our strategy to ensure our activities continue to be appropriate.

Involving our stakeholders

Sky has a large and diverse body of users and stakeholders, and we regularly seek views from them, to develop our thinking, make sure we are following expert advice, and meeting their expectations in evolving our strategy and activities. By working closely with our stakeholders we aim to encourage and promote engagement as a driver for improvement.

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 at least twice a year and is chaired by Dame Gail Rebuck, one of our Non-Executive Directors. Further details on the Bigger Picture Committee can be found on page 42.

To ensure the implementation of our strategy across the business, we have steering groups for Environment, Cycling and Arts, and other groups are in place to oversee our sustainability policies, controls and processes. Our Environment Steering Group ("ESG") is led by our Chief Executive, Jeremy Darroch, and includes Executives from across the business. The group meets quarterly to review actions being undertaken by the business to reduce emissions, and progress against our targets. Our performance is driven by ten targets set out by the ESG in 2009, which focus on environmental improvements over the long-term.

The Bigger Picture team manages our day to day work, collaborating with external partners, organisations, and colleagues across Sky to deliver our Environment, Sport and Arts initiatives, and ensuring our sustainable business practices are acted upon throughout the Company.

We seek external views from all of our stakeholders to develop our thinking, make sure we are following expert advice, and meet our stakeholders' expectations in evolving our strategy and activities. Our employees can provide input to our corporate strategy through the Sky Forum, which consists of around 80 employees elected by their colleagues. We have a regular dialogue with our most important stakeholders including our customers, suppliers, regulators, local communities, relevant non-governmental organisations and charity partners. This happens as part of our everyday business as well as through activities such as customer focus groups.

To ensure we are following best practice in our sustainability activities, we are members of Business in the Community, The London Benchmarking Group, Media CSR Forum, The Media Trust and UK Corporate Leaders Group. We are active participants in the Carbon Disclosure Project, and the Forest Footprint Disclosure.

Sky is included in the FTSE4Good, is accredited by the Carbon Trust Standard and is part of The Dow Jones Sustainability Index. We are also on the Global 100 Most Sustainable Corporations list, have achieved Platinum in Business in the Community's Corporate Responsibility Index and are proud holders of the Community Mark.

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/thebiggerpicturereview2011.

Sky Day to Day

In our day to day operations we try to balance the responsibilities we have to our stakeholders and wider communities with our business priorities.

Customers

Our customers are critical to our success. We invest in content and innovative technologies to ensure that our TV customers have the best viewing experience. We have promised to spend more than £600 million on original "home-grown" productions over the next three years on British programming. This year alone we expect to spend £380 million on UK commissioning, production and journalism, not including the purchase of sports rights. Through Sky News, we provide independent, impartial news coverage. As members of the Cultural Diversity Network, we try to increase the diversity of people seen in our programmes. This year we ran two programming weeks to celebrate diversity on screen, one focused on the lives of people with various disabilities, and the other celebrated International Women's Day.

We look at every aspect of a customer's relationship with us to identify ways of improving their experience and satisfaction – from

their interactions with our call centres and engineers to the products and services we offer. We established a formal Customer Compliance Committee, whose remit it will be to look into topics such as improving customer complaints handling and the sales process.

As a result of customer feedback, we are investing heavily in training our customer service teams to be multi-skilled so that they can resolve customer queries first time without needing to transfer to another operator. We recruited more specialist engineers so that we can send one of our own in-house trained engineers to over 95% of our customers who require a service visit. We also worked closely with our business partners to ensure our processes and communication styles are aligned, and that the quality of the service we offer is consistent.

Our Accessible Customer Services team is specially trained to address the needs of customers with accessibility needs. We provide Audio Description and subtitling services well above what is required of us by law, because we think it's important that all of our customers can access the programmes they want. This year we also launched Sky Talker for our customers who suffer sight problems. Sky Talker vocalises the search and scan banner, programme synopsis information and Sky+ functionality such as play, pause and rewind – making navigation easier and quicker.

Data protection is one of our core responsibilities. We manage customer privacy and data protection by having rigorous policies and clear lines of accountability. All Sky people are required to pass our online e-learning module on data protection and security, and all new employees have to successfully complete it within their first three months of joining. Information about our governance for data protection can be found on page 44.

We provide all of our broadband customers with free parental controls, and advice on how to protect themselves through the Sky Security website. On our TV platform, we provide market-leading parental control technology including the ability to set a watershed, age rating filters, restricting access to specific channels, and the ability to monitor spending on Sky Box Office. With on-going investment in video on demand products in 2010/2011, we have also implemented new controls to protect customers on this platform. The Sky Child Safety Forum includes representatives from various departments and meets quarterly to facilitate a cross-functional approach to addressing the challenges of child safety, both on screen and online.

Sky takes seriously the need to provide its services in a way that encourages responsible gambling. All of the Sky Betting and Gaming team receive 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.

Suppliers

Through our investment in programming and innovation we make a significant contribution to the UK's creative industry. This year, Sky directly employed around 2,500 people in skilled production and broadcasting roles. Many more jobs are created through the scores of broadcasting, production and technology companies which are sustained by our investments. Sky's entertainment channels alone worked with more than 100 independent producers in 2010/2011.

We source products and services from thousands of suppliers around the world and use our influence to promote better social and environmental standards. We think that collaborative supplier relationships are the best way of obtaining the most value from those relationships. Our Responsible Sourcing Principles cover environmental and human rights issues, and it is the responsibility of our suppliers to meet these when working with Sky. We work with our most carbon intensive suppliers to help them measure their carbon footprint and reduce emissions through the Carbon Disclosure Project.

Our People

The passion, hard work and enthusiasm of our people are what make Sky a success. We want to employ the very best people and help them perform to the best of their ability. We offer a range of schemes that allow young people to experience working for us, including two and three-year graduate programmes in a range of departments, apprenticeships in our engineering and customer service teams, as well as internships and workplace programmes in our Entertainment, News and Sport teams. We provide extensive training and development opportunities for our people, and this year increased the amount of training provided, running more than 112,000 days of facilitated training, and in excess of 68,000 hours of e-learning.

We pride ourselves on having a culture which emphasises output and results rather than monitoring the time employees spend in the office. When possible, we support flexible work arrangements, and this year updated our remote-access technology to make it easier to work from home. We also changed our maternity pay policy: new mothers will now receive company maternity pay for six months, double the previous allowance, and we have halved the time employees need to have worked at Sky in order to be eligible from two years to one. We listen carefully to our employees' feedback and ideas on our products and services, and how to make Sky an even better place to work, using our People Survey, and the Sky Forum.

We take the safety and well-being of our staff very seriously. We have strong health and safety policies, and come up with engaging and interactive ways to communicate our health and safety messages. We run events throughout the year to help our people stay fit and healthy, including workshops, health assessments, and health treatments.

Our diversity strategy focuses on ensuring that Sky is open to anyone with talent and a good work ethic. Over the past two years, we have had a particular focus on ensuring that women and people from black and ethnic minority groups are fairly represented in leadership and management positions, and throughout the business. As members of the Cultural Diversity Network, which aims to improve diversity in the media both on and off screen, we provide mentorships for people from minority backgrounds to develop their careers in the media.

Review of the business

continued

Community Action

Making a positive contribution in the communities where we work and where our customers live is important to us. We encourage Sky people to get involved, by taking part in our community initiatives to maximise the impact we make. As well as contributing to our communities through volunteering and fundraising, this gives our people the chance to learn new skills and knowledge and work together as a team.

Our employees can make tax-free donations to a charity of their choice directly from their salary and we give an extra 50p for every £1 given. We also support employee fundraising with pound-for-pound matching, up to £300 if fundraising as an individual, or £1,000 if fundraising as part of a team of two or more Sky people. To encourage more of our people to take advantage of our payroll giving and match fundraising schemes, this year we improved our systems and ran promotional presentations highlighting the benefits.

Sky people can also take 16 hours of paid time off a year to volunteer. We offer them a variety of volunteering opportunities linked to our priority areas of Environment, Sport and Arts, as well as an "add your own" option, which enables individuals to volunteer for any charity of their choosing. This year, we worked to make it easier for Sky engineers to take advantage of volunteering opportunities, as well as heavily promoting opportunities to our customer service teams, and as a result have seen a healthy uptake of volunteering across the business.

Because we are a recognised and admired brand among young people, we have a unique opportunity to engage with schools in our communities. We offer bespoke support to local schools, as well as helping schools across the UK to develop their students' social and academic skills through initiatives such as Sky Sports Living for Sport and the Sky Rainforest Rescue Schools Challenge. We also want to support future careers in the media, and have several programs that give young people insight into working in broadcast, media and journalism.

Environment

Our environment strategy has two aims: to minimise our environmental impact and to inspire others to act with us to protect the environment. We have set ourselves ten challenging environment targets that span our operations, our products, working with our customers, involvement from our people, and engaging with our suppliers. Two of our targets are reproduced below and all ten targets, together with our performance against them, can be viewed in the Bigger Picture Review 2011.

Performance against environment targets

	Target	2009/10[(i)]	2010/11[(i)]
25% reduction in gross CO_2 emissions by 2020[(ii)(iii)]	-25%	-7%	-19%
Percentage reduction in total energy consumption of newly installed Sky+HD boxes by 2012	30%	29%	29%

(i) performance relative to base year 2008/09.

(ii) target is to reduce 25% gross CO_2e emissions per £m/turnover.

(iii) emissions have been re-baselined to exclude Easynet which was sold in September 2010.

We minimise Sky's environmental impact in both our day to day operations and through the development of sustainable products and services. We are constantly working to reduce our operational and our products' carbon footprint. We install technologies that improve the energy efficiency of our buildings such as cool beam technology air conditioning systems, solar powered and motion sensor controlled lighting, and smart meters which provide us with energy use information on a floor-by-floor basis. Energy efficiency has been a key focus to the design of our new building, Sky Studios, which includes features such as extensive external solar shading, natural ventilation, and natural lighting. In addition, onsite renewable energy provides nearly half the energy requirements of Sky Studios. We have also been working hard to reduce our impacts resulting from business travel and our fleet, and to decrease the waste we send to landfill.

We look at the way our products are delivered to, and used by our customers, and find ways of making them more sustainable and energy efficient. For example, we have increased the energy efficiency of our Sky+HD box by 29% from the previous model, and we have upgraded our Auto Standby software so that it switches inactive boxes to a standby state during the day as well as overnight. We also put an off switch on the front of new boxes to turn the device completely off. These changes are saving around 90,000 tonnes of CO_2 a year, as well as saving £20 million a year for our customers. Our satellite dishes are now made from recycled car parts, and we have reduced packaging and removed excess cables and printed user guides, which are now available online.

As part of measuring our impact, our environmental performance data is independently assured by Environmental Resources Management. 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. 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.

The table below illustrates our progress in reducing gross CO_2 emissions in order to minimise our environmental impact.

	2008/09	2009/10	2010/11
Total Gross CO_2e emissions (tCO_2e)[(i)(ii)]	108,949	112,565	113,089

(i) tCO_2e emissions include emissions from premises, company-owned vehicles and refrigerant useage.

(ii) emissions have been re-baselined to exclude Easynet which was sold in September 2010.

Our absolute gross emissions have risen by only 0.46% this year compared to last year despite Sky growing as a business. In relation to our target set against our 2008/09 baseline, this represents a 19% reduction in CO_2e emissions per £m turnover. This shows great progress and we plan to maintain this drive as our company grows in order to meet our target by 2020.

We think it's important that as a company with knowledge of measuring and reducing our emissions and environmental impacts, we share this knowledge with others to help them reduce their

impacts too. As a member of the BAFTA Sustainability Action Group, we have been working with other leading broadcast companies to understand the carbon emissions associated specifically with TV and media production. We are also working with Global Action Plan and Ravensbourne College to provide workshops for small and medium sized production companies and freelancers on how to reduce the carbon emissions associated with their day-to-day activities.

In order to inspire others to take action to protect the environment, we have continued our partnership with WWF. Through Sky Rainforest Rescue, we are involving our staff and our customers in our campaign to help save one billion trees in the Amazon rainforest by raising £2 million by 2012, which Sky will match pound-for-pound to reach a total of £4 million. In 2010/2011 we have reached a fundraising total of £1 million and have over 23,000 supporters. We have also been working in partnership with WWF and the Acre State Government in Brazil ensuring the future protection of the rainforest – helping develop a new law that aims to ensure that the rainforest is worth more alive than dead. The System of Incentives for Environmental Services (SISA) became law in October 2010 and provides the structure, authority and appropriate governance for the state to enable economic incentives to protect the rainforest.

During the last year we dedicated two weeks of programming to raise our viewers' awareness of the importance of protecting the environment and the rainforest, and encouraged them to take action. In November we featured Natural World week, and in April, Rainforest Week. As part of this campaign, Sky 1 commissioned Rooftop Rainforest, which charted urban ecologist Dusty Gedge's ambitious project to construct an indoor rainforest on top of the Westfield London shopping centre, and aired as a two-part documentary on Sky 1. Over the following week 4,000 members of the public visited the project, including nearly 200 schoolchildren from six schools.

Sport

Sport has always been at the heart of what we do at Sky. Over the past two decades, we have provided Sport fans with access to an unprecedented depth and breadth of sports coverage. Our multi-billion pound investment has helped develop the talent and infrastructure of British sport from its grass roots to the elite level. More investment and exposure means better facilities, training and equipment, motivates new talent, and provides a better experience for players and viewers alike.

We want to inspire our customers to take part as well as watch. Sport has the power to change lives, so we try to engage people in sport at all levels.

This was our eighth year of the Sky Sports Living for Sport initiative, which provides secondary schools with resources to motivate and inspire young people through sport. As of the end of June 2011, over 1,500 schools and to date 33,000 young people have taken part. This year, we conducted extensive research on the impact of the initiative looking back at participation over the last five years. We found that 88% of participants showed improvements in self-confidence, 83% showed improvements in attitudes to learning, and 70% demonstrated health and wellbeing benefits. In addition, participants achieved 14% higher than the national average in their English exams, and 4% higher than the national average in Maths.

In 2006 we teamed up with the England and Wales Cricket Board ("ECB") to set up the Sky Sports ECB Coach Education Programme. The programme is designed to equip cricket coaches with the necessary skills to deliver high quality coaching at all levels of the game, ensuring the success of the sport with a new generation of players. This year, more than 10,000 new coaches have graduated, bringing the total amount of coaches educated by the programme to 33,000, surpassing our initial 30,000 goal. We focused more on female coaches this year, and asked the England Women's team and their coaches to take an active part in the programme.

This is our third year in partnership with the British Cycling Federation, the governing body for cycling in the UK. The overall goal of our partnership is to get one million more people cycling regularly by 2013. We are supporting the sport at every level – from the elite GB team and Team Sky, our own professional road cycling team which aims to have the first British winner of the Tour de France by 2013, to grassroots activities for recreational cyclists.

Our second year of Sky Ride mass participation cycling events saw us holding 12 events on traffic-free streets in 10 cities, providing a fun environment for people of all ages and abilities to cycle safely with their friends and family. Over 200,000 people took part this year. In each Sky Ride city we also delivered a programme of Sky Ride Locals – free, weekly led cycle rides by British Cycling trained ride leaders, which capture the enthusiasm created by the city events and offer a way for people to keep cycling. Riders can pick a level to suit their age and ability giving them a chance to improve confidence levels. In 2010, over 500 local rides took place, attracting over 11,000 participants. Since the launch of our partnership in 2009, 376,000 people have been encouraged to become regular cyclists (cycling on average at least once a month) as a result of our initiatives.

Arts

Many of our customers are passionate about the arts, so we provide them with the UK's only group of channels dedicated solely to the arts, broadcasting more hours of arts programming than anyone else, and investing in bold, original productions. We also want to develop new passions by bringing the arts to more people – on air, online and on the ground, and giving them the opportunity to experience culture in new ways.

Innovative arts partnerships are crucial to the vitality of the arts scene across the UK and Ireland, that's why we have launched the Sky Arts Ignition Series partnering with and investing in leading arts organisations to create innovative works. For each of the chosen projects, Sky Arts will provide cash investment of up to £200,000 and work with the arts partners to bring their projects to a wider audience on-air, on demand, online and on the ground. The Sky Arts Ignition: Futures Fund offers bursaries of £30,000 each as well as mentoring by Sky employees to emerging artists to bridge the gap from training to working artist.

Review of the business

continued

We support some of the most prestigious arts festivals and events with investment that contributes to the cultural landscape, and we also broadcast highlights in order to bring the experience to those people who couldn't attend. Since 2007, Sky Arts has been the broadcast sponsor of the Telegraph Hay Festival, one of the largest literary festivals in the world. This year, we broadcast four special editions of The Book Show from The Sky Arts Studio, and a further 20 festival sessions and debates. On the ground in our Sky Arts Den, over 28,000 festival-goers relaxed and enjoyed free performances and workshops.

Encouraged by the success of The Book Show from the Hay Festival, this year we decided to take The Book Show on the road to four more leading literary festivals – the Cheltenham Literature Festival, the Bath Literature Festival, Words by the Water Festival in Cumbria, and the Dublin Writers' Festival. We also broadcast from and support other festivals across the country, and we are now the largest broadcaster of music festivals in the UK, covering 13 festivals over the summer. This year, we also supported the South Bank Sky Arts Awards for the first time, after the show's previous funding partner pulled out.

We want to open up the arts to people who may not otherwise engage with it, and to ensure that artists and arts organisations have the funding and support that they need to offer groundbreaking art to the public. Through our seven-year partnership with English National Ballet, we made ballet more accessible to new audiences by bringing it to them in innovative ways on screen, offering affordable tickets to performances, and providing free classes for school children.

In the second and final year of our partnership with Artichoke, the UK's leading public art producers, three major projects took place. The Sky Arts Artichoke Salon Series, in association with Tate, was a series of three public debates centred on the nature and use of public space, attended by over 700 members of the public. Our second major project was "The Magical Menagerie", a giant carnival roundabout installed at the Milton Keynes International Festival. Finally, "Dining with Alice", an eccentric theatrical show inspired by the Mad Hatter's tea party from Alice's Adventures in Wonderland, took place over a four course outdoor Victorian dinner in Norfolk. Over the course of the year, we engaged over 30,000 people through these events, contributing to our goal of broadening access to arts and culture across the country.

A lot of great art work is happening across the country by organisations which don't normally receive national exposure. By partnering with up to 18 regional arts organisations across the UK through our Sky Arts At programme, we aim to bring the best regional arts content to our viewers, and support local arts communities by raising their profile. For each of our partnerships, we produce behind-the-scenes documentaries which are aired on Sky Arts channels as well as online, where they are available to view free to anyone. Our partnerships this year have included the Dublin Theatre Festival, Frank Zappa festival at The Roundhouse, The Royal Court, Rambert Dance Company and Museums at Night.

PEOPLE

Organisation

Over the past year, we have continued in our efforts to make Sky a great place to work. We have placed particular focus on leadership capability, looking both at our leaders of today and our future leaders. The average number of full time equivalent persons employed by the group during the year was 16,006.

Leadership & Collaboration

We have articulated 6 Sky Behaviours that we believe are vital for our leaders to embrace to help us grow our business. These are: Clear Direction, Doing the Right Thing, Feedback & Development, Change & Improvement, Teamwork & Collaboration and Empowerment.

Over 200 of our most senior leaders have received detailed individual feedback on their leadership style and have been given support in their development against these through a variety of means including coaching, workshops and events. The Sky Behaviours are built into our leadership and management programmes at all levels and our leaders are measured against them in their performance reviews.

We have also run comprehensive development programmes for the leaders in our contact centres to ensure they are equipped to motivate and manage their teams to deliver the best possible customer service. Approximately 750 leaders have received specific management training.

Managing and developing our people

Building our capability

With our people at the heart of everything we do, making sure everyone has the right skills to do their jobs is vital. Our Development Studio offers a wide range of resources that enable everyone in the company to have access to the latest e-learning, MP3 downloads, books and courses. Over 112,000 days of development have been logged this year alone. In addition we have carried out over 600,000 hours of training in our contact centres covering approximately 4,500 employees. This has been across a range of subjects including multi-skilling. The effectiveness of the training is tracked by testing individuals pre and post training.

Creating opportunities for all

There is a specific focus on succession planning and creating career development opportunities for employees with regular meetings with the senior executive team to plan internal mobility and cross functional moves.

We believe in attracting and nurturing future talent to support our growth so we have continued to develop our future talent programme. This year it has continued to go from strength to strength. Our future talent programme focuses on developing students still in education, school leavers and graduates.

This year we increased our graduate intake by 40% and will be providing a new centralised graduate development programme aimed at building the leaders of tomorrow. In addition to this our newly launched "Software Academy" provides opportunities for

graduate programmers to join the technology team, to make an immediate contribution to some of our most strategic software development programmes.

For school leavers we offer an Apprenticeship scheme which we are continuing to expand, doubling the size of our intake and a tailor-made programme called "Fast Forward" in the Entertainment side of our business.

Work placement opportunities also provide an opportunity for Sky to contribute to the development and experience of young people. Across the business this year we have increased the number of opportunities with approximately 400 placements being offered in the past year.

Sky is an equal opportunities employer and we believe that everyone should have full and fair consideration for all vacancies, promotions, training and development. 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. Over the course of the year, we have partnered with various not-for-profit organisations with the aim of providing more opportunities for people with disabilities.

Employee Engagement

We developed a new employee engagement survey this year to enable us to benchmark ourselves against other UK companies and specifically against high-performing companies.

The proportion of our people participating in the survey was extremely high compared with external benchmarks and showed a high level of employee engagement.

As well as reaching a high performance indicator for employee engagement (90%) we also learnt that compared to other high-performing companies, we perform exceptionally well in the categories of reward and recognition, corporate social responsibility, performance and development. Benchmarking has also helped us prioritise activity in support of our overall employment proposition. We have recently introduced more frequent "pulse" surveys, sampling a smaller proportion of employees throughout the year to allow us to continuously monitor the organisation so we can keep in touch with employees' views all year round.

The following are key performance indicators that we derive from the results of our surveys:

Statement	% of employees who agree with the statement
"I fully support Sky's strategy and goals"	87%
"I understand how my job contributes to and supports the success of Sky"	91%
"I am willing to go the extra mile to help Sky succeed"	93%

Having open and transparent communications throughout the business is important to us. Our Sky Forum plays a significant role in this. The Sky Forum is a team of 80 employee representatives from across the business. They meet several times a year to discuss a wide range of business issues and to provide input that helps Sky to continuously innovate and improve the way that we do things. The national meetings are attended by the most senior executives of the Company.

This year the role of the Forum has evolved and it is now more engaged in working through and helping resolve issues or implement ideas rather than just bringing them to our attention.

Diversity

We are starting to reap the fruits of the diversity strategy introduced last year with a focus on increasing representation of women and people from Black and Minority Ethnic (BAME) groups in leadership and management positions. There have been a number of initiatives in support of the strategy, including evolving our Senior Women's Development Network, significantly enhancing our maternity benefits and partnering with various not-for-profit organisations in support of the recruitment of BAME applicants into Sky. We were delighted when our efforts were recognised by our placement in the respected Times Top 50 Employers for Women awards.

Reward and Recognition

We continue to provide a generous benefits package to all our people and to benchmark pay against relevant industry norms to ensure that our reward practices are meeting the evolving needs of the business.

Our various recognition schemes ensure that our people are recognised for outstanding contribution to the business. The contribution of all our people to hitting our long-term company objective of reaching 10 million customers was acknowledged in a bumper Christmas gift as well as enhancing our annual Sky Fest (2 day summer festival) activities available to all employees and their friends and families. Feedback from our people was overwhelmingly positive.

Health, Safety & Wellbeing

The health, safety and wellbeing of all our people are of paramount importance to us: wherever and whenever they work for us and whatever they are doing.

We take a holistic approach to keeping Sky a safe place to work, so whilst accident prevention and safety training is important, the long-term wellbeing of our people is equally important.

Our Occupational Health service supports our people to stay productive with a range of support and facilities to help keep people healthy and happy. Enhancements this year include an upgrade to our on-site gym facilities in Osterley, as well as a new deal offering significant discounts for other gyms for shift-workers who may find it more difficult to access fitness facilities. In addition, on-site complementary therapies have been introduced at some of our sites.

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 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 has a formal risk management policy that is used by the business to identify and record risks. These are consolidated into a Group risk register which is formally presented to the Audit Committee twice a year. The Group manages its principal risks and uncertainties as follows:

Principal risks and uncertainties (further detail is provided below)	Managing the principal risks and uncertainties
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.	We manage these risks through active engagement in the regulatory processes that affect the Group's business. We actively seek to identify and meet our regulatory obligations and to respond to emerging requirements.
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.	We manage these risks by maintaining the quality of our products, investing in new products and developing new processes to meet the needs of the business and our customers.
The Group's business is reliant on technology which is subject to the risk of failure, change and development.	We manage our technology risks through the establishment of strong IT policies and operational controls together with appropriate security measures and disaster recovery for our key systems.
The Group is reliant on encryption and other technologies to restrict unauthorised access to its services.	We manage these risks through a combination of physical and logical controls. Additionally we monitor the security of the encryption systems used to protect our services.
Failure of key suppliers could affect the Group's ability to operate its business.	We manage these risks by ensuring we have a strong supplier selection process with appropriate ongoing management and monitoring.
The Group undertakes significant capital expenditure projects, including technology and property projects.	There is a formal project methodology that we use to manage, monitor and control our major capital expenditure projects.
The Group, in common with other service providers 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.	We manage these risks through an ongoing programme to support appropriate protections of our intellectual property and other rights.
The Group generates wholesale revenue principally from one customer.	Our supply arrangements with VM (our principal customer) are generally multi-year agreements. We have a number of other wholesale arrangements in respect of our channels including those to distribute Sky Sports 1 and Sky Sports 2 via DTT with BT and Top up TV.
The Group is subject to a number of medium and long-term obligations.	We manage these risks by tracking and recording our medium and long term obligations.

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 or retaining 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 on Sky WMO Obligations for the channels Sky Sports 1, Sky Sports 2, Sky Sports 1 HD and Sky Sports 2 HD (the "Affected Channels"). This decision brought to an end Ofcom's three year Pay TV

Investigation. In June 2010, Sky appealed Ofcom's decision to the CAT.

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

The WMO Obligations specifies maximum prices that Sky may charge for Sky Sports 1 and/or Sky Sports 2. 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 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 the Affected Channels to each of BT, Top Up TV and VM 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 VM 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 Obligations. The difference between that price and the rate card price set by Sky 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 23 November 2010, the CAT made an agreed Order extending the implementation of the WMO Obligations to a company called REAL Digital EPG Services Limited, in respect of distribution via DTH satellite.

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.

The appeal has now been heard at the CAT and judgment is awaited.

On 11 August 2010, Ofcom issued a decision that a term included in the agreement between Sky and Top Up TV for the supply of Sky Sports 1 and Sky Sports 2 to Top Up TV on WMO terms breached the conditions of Sky's broadcasting licences that implement the WMO Obligations (the "WMO Conditions"). On 14 December 2010, Ofcom issued a decision that a further term included in the same agreement between Sky and Top Up TV similarly breached the WMO Conditions. Sky submitted appeals against these two Ofcom decisions, on 11 October 2010 and 14 February 2011 respectively. The two appeals will be heard together at the CAT in the Autumn of 2011.

In August 2010 Ofcom announced its decision to refer the supply and acquisition of certain Pay-TV movie rights and the supply and acquisition of Pay-TV packages including certain movie channels to the Competition Commission ("CC") for investigation. The CC's provisional findings are due to be published in August 2011.

On 8 July 2011 Ofcom wrote to the Chairman of the House of Commons Culture, Media and Sport Committee to highlight its duty to be satisfied that any person (including controlling directors and shareholders) holding a broadcasting licence is fit and proper to hold that licence and to indicate that it would be monitoring the phone hacking investigations in relation to News Corporation (the Group's largest shareholder) and keeping abreast of the timescales of those investigations and any further information that may assist it in the discharge of its duties.

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

Principal risks and uncertainties

continued

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. On 10 June 2011, Ofcom launched a review of TV advertising trading in the UK. The review will establish whether the way TV advertising is currently bought and sold prevents, restricts or distorts competition, and whether this has a harmful effect on consumers. If Ofcom concludes that there are sufficient competition concerns, it will decide whether to exercise its discretion to refer the sector to the Competition Commission by the Autumn of 2011 for an in-depth competition investigation.

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 TV 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 slowdown in the rate of economic growth and the 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 uplinking 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, 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 piracy 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 as well as the encryption and equivalent technology which the Group employs in connection with services it makes available on open platforms (e.g. to PCs). 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 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 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

Principal risks and uncertainties

continued

activities may be more easily facilitated by the internet and digital technology. In addition, the lack of clarity relating to the legal framework applicable to the internet creates an additional challenge for the Group in protecting its rights relating to its online business and other digital technology rights.

On 3 February 2011, the Advocate General (the "AG") of the European Court of Justice ("ECJ") gave her opinion to the ECJ in the joined cases *Football Association Premier League Ltd and Others v QC Leisure and Others* and *Karen Murphy v Media Protection Services Ltd*, which are references for preliminary rulings from the UK's High Court of Justice. The cases in the main proceedings stem from the practice of territorially restricting access to encrypted sports broadcasts which are transmitted via satellite to various Member States, and the use of foreign decoder cards in the United Kingdom to access foreign satellite transmissions of live Premier League football matches. The references for preliminary rulings concern the issue of whether measures to enforce exclusive broadcasting rights are incompatible with Community law. The AG's opinion does not bind the ECJ, whose final decision is awaited.

The Group generates wholesale revenue principally from one customer.

The Group currently derives its wholesale revenue principally from one wholesale operator, 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.

Directors' report – Financial and operating review

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.

The Group maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal 2011, this date was 3 July 2011, this being a 53 week year (fiscal year 2010: 27 June 2010, 52 week year). For convenience purposes, the Group continues to date its consolidated financial statements as at 30 June.

A reconciliation of non-GAAP measures is set out on page 121 and a detailed reconciliation of profit from continuing operations to adjusted profit from continuing operations is included in note 11 to the consolidated financial statements.

The Group's results from continuing operations include the acquisition of the Living TV Group ("Living TV") in the current year and exclude the results of Easynet Global Services ("Easynet") from both the current year and the prior year comparative.

Overview and recent developments

During the current year, total revenue from continuing operations increased by 16% to £6,597 million, compared to the year ended 30 June 2010 ("the prior year"). Adjusted operating profit from continuing operations for the current year was £1,073 million, resulting in an adjusted operating profit margin of 16%, compared to 15% in the prior year. Reported operating profit from continuing operations was £1,073 million, compared to £1,113 million in the prior year.

Adjusted profit for the year from continuing operations was £725 million, generating adjusted basic earnings per share from continuing operations of 41.6 pence, compared to an adjusted profit from continuing operations of £560 million and adjusted basic earnings per share from continuing operations of 32.1 pence in the prior year. Reported profit for the year, including discontinued operations, was £810 million, generating basic earnings per share of 46.5 pence, compared to a profit of £878 million and basic earnings per share of 50.4 pence in the prior year.

At 30 June 2011, the total number of TV customers in the UK and Ireland was 10,187,000, representing a net increase of 327,000 TV customers in the current year. Including our standalone home communications services, the total number of customers was 10,294,000, representing a net increase of 426,000 customers in the current year.

At 30 June 2011, the total number of Sky+HD customers was 3,822,000, representing 38% of total TV customers. This represents growth in Sky+HD customers of 30% in the current year. The number of Multiroom customers also continued to grow, increasing by 129,000 in the current year to 2,250,000; 22% penetration of total TV customers. Wholesale subscribers to the Group's channels increased to 4,382,000 compared to 4,312,000 in the prior year.

Churn for the current year was 10.4% which is in line with the prior year (2010: 10.3%).

Sky Broadband continues to grow strongly, increasing by 711,000 customers in the current year to 3,335,000. During the year we unbundled 385 additional exchanges, increasing our footprint to approximately 80% network coverage. The number of Sky Talk customers reached 3,101,000, representing an increase of 734,000 in the current year. The number of Line Rental customers increased by 994,000 in the current year to 2,680,000.

Corporate

The Board of Directors is proposing a final dividend of 14.54 pence per ordinary share, resulting in a total dividend for the year of 23.28 pence, representing growth of 20% over the prior year full year dividend. The ex-dividend date will be 16 November 2011 and, subject to shareholder approval at the Company's Annual General Meeting ("AGM"), the dividend will be paid on 9 December 2011 to shareholders of record on 18 November 2011.

On 12 July 2010, the Group completed the purchase of 100% of the share capital of Virgin Media Television Limited, Virgin Media Television Rights Limited, and the assets and liabilities of the Virgin Media television channels, subsequently renamed the Living TV Group. Total consideration comprised £160 million cash after adjustments which included a working capital adjustment.

Following the delisting of the Company's ADSs on the New York Stock Exchange, the Company filed to terminate the registration of its ordinary shares with the U.S. Securities and Exchange Commission ("SEC"). The termination became effective on 18 August 2010. As a result the Company no longer has SEC reporting obligations. 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 continue to trade on the London Stock Exchange.

On 1 September 2010, the Group completed the sale of its business-to-business telecommunications operation, Easynet, to Lloyds Development Capital ("LDC") for £94 million after adjustments which included a working capital adjustment.

On 23 February 2011, the Group completed its acquisition of The Cloud Networks Limited ("The Cloud"), a public Wi-Fi network operator for a maximum consideration of £48 million, of which £5 million is contingent upon The Cloud achieving future financial targets.

On 5 April 2011, the Group sold its available-for-sale investment in Shine Limited ("Shine") for a maximum consideration of £36 million, of which £31 million has been received to date. The remaining consideration is contingent on certain post transaction criteria and is currently held in escrow.

On 7 May 2008 the Combined Nomenclature Committee of the European Commission issued an Explanatory Note imposing a 13.9% ad valorem customs duty to the importation of set-top boxes incorporating a hard disk drive. The Group appealed this

Directors' report – Financial and operating review

continued

decision to the First Tier Tribunal (Tax Chamber) ("Tribunal"). On 6 July 2009 the Tribunal referred the matter to the Court of Justice of the European Union ("ECJ"). On 14 April 2011 the ECJ gave judgment agreeing with our analysis that the primary purpose of such set-top boxes was to act as a television receiver such that no customs duty is payable. We expect the matter to be referred back to the Tribunal for them to apply the ECJ's decision to the facts of the Group's appeal. The Group paid £53 million of duty on set-top boxes from 30 June 2008 to 14 April 2011 and this is now being recovered from HMRC.

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").

News Corporation confirmed that the Proposal did not amount to a firm intention to make an offer under Rule 2.5 of the Takeover Code and there was no obligation on News Corporation to make such an offer and therefore that it could withdraw the Proposal at its sole discretion at any time. At the time of the Proposal the Company and News Corporation entered into an agreement which provided, amongst other matters, that if News Corporation announced prior to obtaining merger clearance that it did not intend to make a firm offer, then News Corporation would pay the Company a fee of £38.5 million, representing 0.5% of the value of the Proposal (the "Break Fee").

On 13 July 2011, prior to obtaining merger clearance, News Corporation announced that it no longer intended to make an offer for the entire issued share capital of the Company that it did not already own (the "Proposal Withdrawal"). The Break Fee has now been paid. Costs of £15 million were incurred during the year in relation to the Proposal.

On 28 July 2011, the Board agreed to seek the necessary approvals to return £750 million of capital to shareholders via a share buy-back programme. Shareholder approvals will be sought at the Company's AGM on 29 November 2011. The Company has entered into an agreement with News Corporation under which, following any market purchases of shares by the Company, News Corporation will sell to the Company sufficient shares to maintain its percentage shareholding at the same level as applied prior to those market purchases. The price payable to News Corporation will be the price payable by the Company in respect of the relevant market purchases. The agreement is conditional on the appropriate shareholder approvals being granted. The effect of the agreement is to provide that there will be no change in News Corporation's economic or voting interests in the Company as a result of the share buy-back programme.

Operating results

Revenue

Our revenue is principally derived from retail subscription, wholesale fees, advertising 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 subscribed to 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, DTT and Internet Protocol Television ("IPTV") platforms, is a function of the number of subscribers on the relevant operators' platforms, the mix of services subscribed to and the rates charged to those wholesale operators.

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.

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 and mobile TV services as well as conditional access, access control and electronic programme guide fees from customers on the Sky digital platform. It also includes third party set-top box sales.

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 TV 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 25 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 TV 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 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, retention 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 and home communications equipment for new and existing 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 customer levels and new customer additions 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.

2011 fiscal year compared to 2010 fiscal year

Revenue

The Group's revenue from continuing operations can be analysed as follows:

	2011		2010	
For the year to 30 June	£m	%	£m	%
Retail subscription	5,455	83	4,761	83
Wholesale subscription	323	5	238	4
Advertising	458	7	340	6
Installation, hardware and service	112	1	174	3
Other	249	4	196	4
	6,597	**100**	**5,709**	**100**

Group revenue increased to £6,597 million (2010: £5,709 million), up 16% year on year and benefitting from the broadly based growth delivered this year.

Retail subscription revenue increased by 15%, to £5,455 million (2010: £4,761 million), reflecting the success in our multi-product strategy and a larger customer base.

Wholesale subscription revenue increased by £85 million to £323 million (2010: £238 million) following our acquisition of Living TV and with a higher number of wholesale operators' customers paying for our premium channels.

Advertising revenue for the year was 35% higher at £458 million (2010: £340 million), as we benefited from the consolidation of the sale of airtime on Living TV and the improvement in the television advertising sector conditions. Advertising revenue now includes revenue related to our online properties and Sky Magazine; of which £19 million (2010: £21 million) was reclassified from other revenue.

Installation, hardware and service revenue was £112 million (2010: £174 million), reflecting our decision to lower the retail price of our Sky+HD box last year.

Other revenue of £249 million (2010: £196 million) was 27% higher year on year. This increase includes revenue from the sale of set-top boxes to Sky Italia in the fourth quarter. The cost associated with the boxes are included in subscriber management and supply chain costs.

Operating expense

The Group's operating expense from continuing operations and excluding adjusting items (as detailed on page 33) can be analysed as follows:

	2011		2010	
For the year to 30 June	£m	%	£m	%
Programming	2,188	39	1,902	39
Direct networks	584	11	440	9
Transmission, technology and fixed networks	395	7	307	6
Marketing	1,220	22	1,115	23
Subscriber management and supply chain	596	11	617	13
Administration	541	10	456	10
	5,524	**100**	**4,837**	**100**

Direct Costs

Direct costs were higher compared to the prior year as we increased our on-screen investment and more customers choose our home communication services.

Programming costs were 15% higher at £2,188 million (2010: £1,902 million) reflecting our strategy to bring TV customers more high quality content. Entertainment costs increased as we launched Sky Atlantic in February and continued to invest in British drama and comedy on Sky 1 and Sky Living. We had a full year of sport with additional content including the fifth pack of live Premier League matches, the US Masters, the Ashes and the Ryder Cup. Third party channel costs were broadly level with additional cost relating to more third party HD channels on the platform

Directors' report – Financial and operating review

continued

offset by carriage fee savings upon consolidation of the Living TV channels.

Direct network costs increased to £584 million (2010: £440 million) as a result of our customers taking 9.1 million home communication products from us, 37% more than a year ago. Higher volumes have been partially offset by a higher proportion of fully unbundled customers leading to lower monthly payments.

Other Operating Costs

Marketing costs (excluding adjusting items) increased by £105 million to £1,220 million (2010: £1,115 million), primarily reflecting the successful above-the-line marketing campaigns surrounding the launch of Sky Atlantic and the promotion of our home communications business.

Subscriber management and supply chain costs (excluding adjusting items) were £21 million lower at £596 million (2010: £617 million) as we benefited from our operational efficiency programmes to reduce costs in our supply chain and contact centres. This was partially offset by the cost of set-top boxes sold to Sky Italia in the fourth quarter. The revenue for this can be found in other revenue.

Transmission, technology and fixed network costs increased by £88 million to £395 million (2010: £307 million). The increase relates to higher network costs as we gain scale in our fixed line business and includes costs for network services previously accounted for within the Group by Easynet.

Administration costs (excluding adjusting items) were £541 million (2010: £456 million), reflecting a higher non-cash IFRS 2 'Share-based payment' charge and associated National Insurance costs, and the acquisition of Living TV. The IFRS 2 charge and related National Insurance costs were £86 million, up £41 million on the prior year as a result of the phasing of our share incentive plans and a higher share price throughout the year.

Litigation settlement income and investment income on litigation settlement

In the prior year, 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.

In the prior year, the Group 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 was recognised in litigation settlement income, representing settlement for costs and damages.

Operating profit and operating margin

Adjusted operating profit from continuing operations increased by 23% to £1,073 million in the current year, as a result of strong growth in retail subscriptions and cost efficiencies in our operating expenditure. Adjusted operating margin from continuing operations (calculated as total revenue less all operating expense as a percentage of total revenue) for the current year was 16%, compared to 15% in the prior year.

Reported operating profit from continuing operations decreased by 4% to £1,073 million in the current year, primarily due to the receipt of litigation settlement income of £269 million 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 £2 million to £34 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.

Investment income and finance costs

Investment income from continuing operations increased by £6 million to £9 million in the current year. This was primarily due to higher cash balances and higher rates of return.

Finance costs from continuing operations reduced by £11 million to £111 million in the current year, primarily due to lower facility fees.

Finance costs from continuing operations included £18 million of non-cash fair value gains on derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness, an increase of £5 million on the prior year (2010: gain of £13 million).

Profit on disposal of available-for-sale investment

On 5 April 2011, the Group sold its available-for-sale investment in Shine for a maximum consideration of £36 million, of which £31 million has been received to date. The remaining consideration is contingent on certain post transaction criteria and is currently held in escrow. At the date of disposal, the Group estimated the fair value of the contingent consideration to be £4 million and recorded a profit on disposal of £9 million, being the excess of the recognised consideration above the carrying value of the shares.

In the prior year, 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 in the prior year, being the excess of the consideration above the impaired value of the shares. The Group continues to hold just under 7.5% of the shares in ITV.

Taxation

The total tax charge for continuing operations for the current year of £256 million (2010: £294 million) comprises a current tax charge of £263 million (2010: £281 million) and a deferred tax credit of £7 million (2010: charge of £13 million). The lower tax charge in the current year is primarily due to the inclusion of tax liability on the EDS legal claim in the prior year charge.

Discontinued operations

On 1 September 2010, the Group completed the sale of its business-to-business telecommunications operation, Easynet, to LDC for £100 million. Subsequent to this an agreed working capital adjustment reduced total net consideration to £94 million.

Easynet represented a separate major line of business for the Group. As a result its operations have been treated as discontinued for the year ended 30 June 2011 and the year ended 30 June 2010. A single amount is shown on the face of the consolidated income statement comprising the post-tax result of discontinued operations and the post-tax profit recognised on the disposal of the discontinued operation.

A pre-tax profit of £62 million arose on the disposal of Easynet being the net proceeds of disposal less the carrying amount of Easynet's net liabilities and attributable goodwill.

Profit for the year and earnings per share

Profit for the year from continuing operations was £758 million, compared to £896 million in the prior year. The decrease in profit was primarily due to litigation settlement income received in the prior year along with the profit on the partial disposal of our investment in ITV. Profit for the year including discontinued operations was £810 million, compared to £878 million in the prior year.

The Group's earnings per share are as follows:

	2011 pence	2010 pence
Earnings (loss) per share from profit (loss) for the year		
Basic		
Continuing operations	43.5	51.4
Discontinued operations	3.0	(1.0)
Total	46.5	50.4
Diluted		
Continuing operations	43.0	51.1
Discontinued operations	2.9	(1.0)
Total	45.9	50.1

In order to provide a measure of underlying performance, management has chosen to present an adjusted profit from continuing operations for the year which excludes items that may distort comparability. See note 11 to the consolidated financial statements for a detailed reconciliation between profit from continuing operations and adjusted profit from continuing operations for the year.

The Group's adjusted earnings per share from adjusted profit for the year from continuing operations are as follows:

	2011 pence	2010 pence
Basic	41.6	32.1
Diluted	41.1	31.9

Adjusting items

In the current year, reported operating profit from continuing operations of £1,073 million included £26 million of restructuring costs arising on the acquisition of Living TV and costs of £15 million relating to the News Corporation proposal; both of these amounts were classified as administration costs. Included within marketing costs for the current year is a credit of £41 million in relation to import duty on set-top boxes paid out in prior years. This duty is recoverable due to the judgment given by the ECJ on 14 April 2011.

In the prior year, reported operating profit from continuing operations of £1,113 million included litigation settlement income of £269 million in relation to the Group's claim against EDS, along with the cancellation of accounts payable on settlement of £5 million and legal costs of £1 million. Reported operating profit also included £32 million of costs relating to a restructuring exercise.

In the current year, reported profit for the year from continuing operations also included a £42 million exceptional gain (2010: £180 million gain), of which £18 million were mark-to-market gains relating to derivative financial instruments not qualifying for hedge accounting and gains and losses arising from designated fair value hedge accounting relationships (2010: £13 million gain), £9 million related to a profit on disposal of an available-for-sale investment (2010: £115 million gain) and £15 million related to a non-cash tax credit for a tax settlement relating to the network operations retained from the Easynet business.

In the prior year, reported profit for the year from continuing operations also included investment income on litigation settlement of £49 million and the receipt of £3 million on closure of a joint venture.

The related tax effects on the above items resulted in a £9 million charge (2010: £85 million charge).

Balance sheet

During the year, total assets increased by £550 million to £5,354 million at 30 June 2011. Non-current assets increased by £207 million to £3,025 million, primarily due to an increase of £218 million in goodwill and intangible assets following the acquisitions of Living TV and The Cloud, an increase of £33 million in available-for-sale investments due to the increase in the equity share price of ITV and an increase in deferred tax assets of £69 million. This increase was partially offset by the impact of the disposals of Easynet and Shine, together with a decrease of £107 million in non-current derivative financial assets resulting from mark-to-market movements on derivative instruments.

Current assets increased by £343 million to £2,329 million at 30 June 2011. This increase was predominately due to a £302 million net increase in cash and cash equivalents and short-term deposits, as a result of receipts from the sale of Easynet and net cash generated from operating activities, offset by the acquisitions of Living TV and The Cloud and dividend payments. Trade and other receivables and inventories also increased during the year.

Directors' report – Financial and operating review

continued

Total liabilities increased by £75 million to £4,319 million at 30 June 2011. Current liabilities increased by £205 million to £1,912 million, primarily due to an increase in trade and other payables. Non-current liabilities decreased by £130 million to £2,407 million, principally due to a £125 million decrease in the fair value of the Group's non-current borrowings, mainly resulting from the strengthening of pounds sterling against the dollar. This decrease was partially offset by a £30 million increase in non-current derivative financial liabilities.

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 25 to the consolidated financial statements.

Liquidity and capital resources

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

	As at 1 July 2010 £m	Cash movements £m	Non-cash movements £m	As at 30 June 2011 £m
Current borrowings	8	–	–	8
Non-current borrowings	2,450	–	(125)	2,325
Debt	**2,458**	**–**	**(125)**	**2,333**
Borrowings-related derivative financial instruments	(333)	–	101	(232)
Cash and cash equivalents	(649)	(272)	–	(921)
Short-term deposits	(400)	(30)	–	(430)
Net debt	**1,076**	**(302)**	**(24)**	**750**

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 23 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 23 to the consolidated financial statements. For details of the Group's treasury activities, see note 25 to 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 on 30 July 2013. At 30 June 2011, this facility was undrawn (30 June 2010: undrawn).

Cash flow

Adjusted free cash flow increased by 51% to £869 million (2010: £577 million), reflecting 19% growth in adjusted EBITDA, lower tax and interest payments than the prior year, and a strong working capital position.

Capital expenditure was £423 million (2010: £429 million), in line with our guidance of around 6.5% of revenue. Major items of expenditure in the period included the technical fit-out of our new broadcast facility and continued exchange rollout programme to increase the footprint of our fixed line communications network.

Strong cash generation during the year has contributed to the reduction in net debt of £326 million to £750 million (2010: £1,076 million). The Group's liquidity and headroom are comfortable with no bond redemptions falling due until October 2015.

Trends and other information

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

The number of TV customers increased by 327,000 in the current year to 10,187,000, compared to growth of 418,000 in the prior year. The total number of customers, including standalone home communications customers, was 10,294,000, an increase of 426,000 customers during the year. We expect growth in customer numbers to continue as a result of the implementation of our current marketing strategy.

Sky+HD customers increased in the current year – by 30% – representing a penetration of total TV customers of 38% and we expect penetration to continue to increase.

Churn for the current year was 10.4%, compared to 10.3% in the prior year. Over the medium term we expect our churn to remain broadly at this level.

The number of Sky Broadband customers increased by 711,000 to 3,335,000. We expect continued growth in the number of retail broadband connections activated in future years. The number of Sky Talk customers increased by 734,000 in the current year to 3,101,000 and the number of Line Rental customers increased by 994,000 to 2,680,000. 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 wholesale subscribers receiving Sky Channels in the UK and Ireland increased by 70,000 to 4,382,000. Our wholesale subscribers are to some extent dependent on the strategies of the relevant wholesale operators,

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 35% in the current year due to the acquisition of Living TV coupled with growth in the television advertising sector. In the short term, the UK television advertising sector is expected to remain volatile and challenging reflecting the continued wider economic uncertainty and the ongoing growth of online 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 and note our commitment to increase our investment in UK originated content and production. In the medium term, the Group expects programming costs to increase in proportion to the increase in revenues.

Direct network costs increased during the current year and are expected to increase in future years. The expected increase reflects higher customer numbers, the cost of operating our Sky Talk service and the growth of broadband services as we continue to invest in further LLU unbundling and mass migrations onto our NVN network.

Marketing costs increased in the year due to our investment in accelerating home communications growth and the launch of a new channel, Sky Atlantic. Subscriber management and supply chain costs decreased during the current year as the costs associated with our larger customer base were offset by success in our operational efficiency programmes to reduce costs in our supply chain and contact centres. 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 Living TV, the increase in the IFRS 2 'Share-based payment' charge and adjusting items, administration costs in the current year were 9% higher than the prior year which is below the rate of revenue growth of 16%, 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 14.54 pence per share, which, combined with the interim dividend of 8.74 pence per share, will result in total dividend growth of 20% on the prior year total dividend.

Off-balance sheet arrangements

At 30 June 2011, 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 £216 million (2010: £197 million) and supplied services to News Corporation totalling £49 million (2010: £32 million).

During the current year, the Group made purchases of goods and services from joint ventures and associates totalling £57 million (2010: £55 million) and supplied services to joint ventures and associates totalling £23 million (2010: £13 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. On 13 July 2011, this proposal was withdrawn. For further details see the "Corporate" section on pages 29 to 30.

For further details of transactions with related parties, see note 32 to the consolidated financial statements.

Events after the reporting period

For details of the withdrawal of the News Corporation proposal and the Company's share buy-back programme see the "Corporate" section on pages 29 to 30.

Board of Directors

James Murdoch (age 38) ●

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 Deputy Chief Operating Officer and Chairman and CEO, International, 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 62) ◎ ◉

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 49)

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 and Spencer Group 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 64)

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 and was appointed as a Director of Shine Limited on 15 April 2011.

David Evans (age 71) ◎

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 and Fox Television Inc. He is currently a Director of Village Roadshow Limited and The Concord Music Group.

Andrew Griffith (age 40)

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 54) ○

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 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. Mr Higginson is a member of the 100 Group of Finance Directors and Chairman of Tesco Personal Finance.

Allan Leighton (age 58) ○

Independent Non-Executive Director

Allan Leighton was appointed a Director of the Company on 15 October 1999. Mr Leighton joined Asda Stores Ltd in 1992 and was appointed CEO in 1996. In November 1999 he was appointed President and CEO of Walmart Europe. Mr Leighton resigned from these positions in September 2000. Mr Leighton is currently Chairman of Pace plc, Peacocks Ltd, Pandora AS, and Music Magpie.co.uk. He is Deputy Chairman of George Weston Ltd and Selfridges & Co Ltd. Mr Leighton was Chairman of The Royal Mail until March 2009. Mr Leighton is a Patron of Breast Cancer Care and holds an Honorary Degree from Cranfield University , and an Honorary Fellowship at UCL.

Thomas Mockridge (age 56)

Non-Executive Director

Thomas Mockridge was appointed as a Director of the Company on 10 February 2009. Mr Mockridge was nominated as CEO of News International in July 2011. Previously, he was CEO of Sky Italia and Chief Executive, European Television of News Corporation where he oversaw 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 63) ◎

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 an Advisory Partner of One Equity Partners, the private equity arm of JP Morgan. He also serves on the International Advisory Board of Allianz. Until January 2008, Mr Nasser served on the Board of Brambles Limited. Mr Nasser graduated from RMIT University of Melbourne, Australia and has also received an honorary Doctorate of Technology.

Dame Gail Rebuck (age 59) ○ ●

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, 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 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 40) ◎

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, and Stardoll Inc. 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 72) ◉

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 68) ◉ ●

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 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 UK Corporate Governance Code 2010 (the "Code") took effect from 29 June 2010, replacing the Combined Code on Corporate Governance 2008 (the "Combined Code") as the standard of good governance practice in the UK. The Financial Services Authority requires listed companies to disclose whether they have complied with the provisions of the Code throughout the financial year.

The Board considers that the Company complied with the Code for the whole of the year ended 30 June 2011. In respect of Code provision B.7.1 all Executive and Non-Executive Directors will retire and offer themselves for reappointment from the 2011 AGM of the Company in compliance with the Code.

This section of the Annual Report along with the report on Directors' remuneration on pages 49 to 58 and other governance and statutory disclosures on pages 46 to 48 provide details of how the Company has applied the main principles of the Code during the year ended 30 June 2011. Further information on the 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 by the Board. The Independent Non-Executive Directors 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 36 to 37 and identify those Directors who are, in the view of the Board, independent within the meaning of the 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 best practice statements contained within the 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.

Additionally, the Company's articles of association allow the Company to indemnify the Directors and deeds of indemnity have been issued to all the Directors of the Company.

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 and Deputy Chairman. Nicholas Ferguson has met with institutional shareholders and representative bodies during the year and is available to assist shareholders in resolving concerns should alternative channels be inappropriate.

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 are as follows:

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

At the Company's 2011 AGM all Non-Executive Directors will retire. It is the intention that Allan Leighton and David Evans will not seek reappointment but all the other Non-Executive Directors will offer themselves for reappointment in accordance with provision B.7.1 of the Code.

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.

All of the Non-Executive Directors are required to devote as much time as is necessary for the proper performance of their duties.

The Non-Executive Directors provide independent challenge, an objective outlook and a diversity of experience, which enables them to hold management to account for the performance of the Company, and also assist management in the development of strategy and the long term plans for the direction of the Company.

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 Proposal. On 13 July 2011 News Corporation announced that it no longer intended to make an offer for the entire issued share capital of the Company and the Offer Committee was subsequently disbanded on 28 July 2011. The Offer Committee was chaired by Nicholas Ferguson.

During the period of the Proposal arrangements were put in place 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 were deemed relevant to the Proposal. This ensured that there was a clear separation of those matters that were reserved for discussion and determination by the Board and those that were reserved for discussion and determination by the Offer Committee, ensuring that all matters relevant to the Proposal (including matters relating to the future prospects or strategy of the Company) were dealt with by the Offer Committee. The Offer Committee met on 12 occasions during the year.

Corporate governance report

continued

Board Practices

The Board met four times during the year. 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	4	4	4	2	2
Director					
James Murdoch, Chairman(iv)(v)	4	–	–	–	1
Jeremy Darroch, CEO	4	–	–	–	–
Andrew Griffith, CFO	4	–	–	–	–
David DeVoe	4	–	–	–	–
David Evans(i)(vi)	3	–	3	–	–
Nicholas Ferguson(i)(ii)	4	–	4	2	–
Andrew Higginson(iii)	4	4	–	–	–
Allan Leighton(iii) (vii)	3	3	–	–	–
Thomas Mockridge	4	–	–	–	–
Jacques Nasser(i)(viii)	3	–	3	–	–
Dame Gail Rebuck(iii)(iv)	4	4	–	–	2
Daniel Rimer(i)	4	–	4	–	–
Arthur Siskind(ii)	4	–	–	2	–
Lord Wilson of Dinton(ii)(iv)	4	–	–	2	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 business engagement.*

(vi) *David Evans was unable to attend a Board meeting and a Remuneration Committee meeting due to illness.*

(vii) *Allan Leighton was unable to attend a Board meeting and an Audit Committee meeting due to a prior business engagement.*

(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.*

Due to the frequency of the Offer Committee meetings the Board did not meet as often as originally planned during the period under review.

In accordance with best practice, the independent Non-Executive Directors of the Board held separate meetings during the year. The Senior Independent Director acts as an intermediary for the Independent Non-Executive Directors when necessary.

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;
- 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.

Director induction and training

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. During the financial year under review the monthly report was restricted to members of the Offer Committee. Where appropriate additional training and updates on particular issues are arranged.

Board evaluation

The performance of the Board is central to the Company's success. An evaluation of the Board, its committees and individual Directors

is undertaken on an annual basis to ensure that governance best practice standards are achieved and upheld.

During the year, the Directors carried out a full evaluation of the performance of the Board, its committees and individual Directors, which was led by the Chairman of the Corporate Governance and Nominations Committee ("CGN Committee"). Each Director received an evaluation framework and was interviewed by the Chairman of the CGN Committee. The Directors were required to provide full, open and honest feedback in respect of their views on Board and committee effectiveness and the performance of the Directors. The evaluation of the Chairman's contribution to the running of the Board was assessed by the Independent Non-Executive Directors.

A selection of some of the items the evaluation framework sought views on included:

- the effectiveness of the Board;
- the mix of skills and experience on the Board;
- the development of the Company's strategy;
- the effectiveness of Board processes and procedures;
- the links between the Board and the business;
- the performance of the Board's committees;
- each Director's own performance; and
- the performance of other Directors.

On completion of the evaluation process, the Chairman of the CGN Committee provided a performance report to the CGN Committee. The findings were debated and presented to the Board. Following this year's review, the CGN Committee and the Board have confirmed that the Board and its committees operate effectively and all Directors standing for reappointment at the forthcoming AGM continued to perform effectively and demonstrate commitment to their roles.

The CGN Committee has noted the Code requirement that boards should be externally facilitated at least every three years and will take this into consideration when planning future Board evaluations.

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 the Board considers Independent Non-Executive Directors within the meaning of the provisions contained in the Code. 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 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 49 to 58. The report on Directors' remuneration will be put forward for an advisory shareholder vote at the 2011 AGM.

Corporate Governance and Nominations Committee

The CGN 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 CGN Committee are Independent Non-Executive Directors in compliance with the 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 CGN Committee led the evaluation of the Board that was completed during the year as discussed earlier in this report.

The CGN Committee assists the Board by keeping the composition of the Board under review. The CGN Committee also keeps under review the Board's balance of skills, knowledge, experience and length of service.

Following the recent withdrawal of the News Corporation Proposal the CGN Committee will review the composition of the Board and recommend appropriate changes to strengthen the Board and its committees. Diversity of experience and outlook will be considered and a thorough and transparent appointment process will be put in place to ensure that the Board is appropriately strengthened. The CGN Committee has noted the recommendations of the Davies Report and will take their recommendations into account when considering future Board appointments.

The CGN 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 Independent Non-Executive Directors. The Non-Executive Directors who are

Corporate governance report

continued

considered by the Board to be independent are clearly identified on pages 36 to 37. 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 CGN Committee's review took into consideration the fact that Allan Leighton and David Evans have served on the Board for more than nine years and it is the intention that Allan Leighton and David Evans will retire at the Company's 2011 AGM. The CGN Committee's review also took into consideration the fact that by 29 November 2011 Jacques Nasser and Dame Gail Rebuck will have served on the Board for nine years. Provision B.1.1 of the Code suggests that serving more than nine years could be relevant to the determination of a Non-Executive Director's independence. The CGN Committee concluded that Mr. Nasser and Dame Gail Rebuck 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.

The Board is putting in place an orderly programme for replacing members of the Board of Directors as they retire.

The Bigger Picture Committee

The Bigger Picture Committee manages the Company's corporate responsibility and community engagement programme which the Company has named "The Bigger Picture".

The Bigger Picture Committee is chaired by Dame Gail Rebuck, and its other members are Lord Wilson of Dinton and James Murdoch. The Chairman of the Bigger Picture Committee reports regularly to the Board on its activities. The main duties of the Bigger Picture 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 22 of the "Directors' report – Business review – Corporate responsibility".

Audit Committee

The Audit Committee, which consists exclusively of Independent Non-Executive Directors in compliance with the Code, has clearly defined terms of reference as laid down by the Board. The Audit Committee is chaired by Andrew Higginson and the other members are Allan Leighton and Dame Gail Rebuck. The CFO and representatives from the external auditor and the internal audit department attend meetings at the request of the Audit Committee. The CEO and other business and finance executives attend meetings from time to time. The Audit Committee Chairman reports regularly to the Board on its activities.

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

- making recommendations to the Board in relation to the appointment, reappointment and removal of the external auditor and discussing with the external auditor the nature, scope and fees for the external auditor's work;
- 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 auditor 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;
- Audit 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 Audit Committee and, if approved by the Audit Committee, must also be submitted to the full Board for approval.

The Audit 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 Audit Committee has sufficient accounting or related financial management expertise as required by the UK Listing Authority's Disclosure and Transparency Rules.

The Audit Committee met four times during the financial year. Meeting agendas were organised around the Company's financial reporting cycle and items covered were 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; and
- 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;
- received quarterly updates from internal audit on the status of Senior Accounting Officer ("SAO") certification work to ensure SAO compliance; and
- evaluated the effectiveness of the internal audit department.

External Audit Matters

- received regular reports from the external auditor;
- reviewed and approved the 2010/11 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; and
- 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 Group's Risk Register; and
- reviewed the Group's preparation and approach to the Bribery Act 2010.

The Audit Committee also received updates from finance departments across the Group, the Chief Technology Officer, 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 Audit Committee during the year. The Director: 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 revised guidance on internal control issued by the Financial Reporting Council in October 2005. This process has been in place for the year ended 30 June 2011 and up to the date on which the financial statements were approved. During the period under review no significant failings or weaknesses were identified.

The Audit 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 2011 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 Audit Committee meets on at least a quarterly basis with the Group's Director: 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. During the financial year under review monthly reports on performance were provided to the members of the Offer Committee and the Group reports to shareholders each quarter.

In respect of Group financial reporting, the Group finance team is responsible for preparing the Group financial statements and there are well established controls over the financial reporting process. These are also documented in line with the requirements of the SAO legislation and the controls are reviewed and signed off to confirm their continuous operation by the control owners twice a year and are independently tested by the internal audit team. The results of the SAO testing are reported to the Audit Committee on a quarterly basis.

There are risk registers which identify the risks faced by the Group and these are consolidated into a Group Risk Register. The registers detail the controls that manage the risks and, where necessary, the action plans to mitigate the risk exposure. The business develops the action plans and the internal audit team monitor their implementation. The Audit Committee formally

Corporate governance report

continued

reviews the Group Risk Register twice a year and there is a rolling programme where senior executives from the business present their risk management plans. The Group's principal risks and uncertainties are detailed in the Business Review.

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 Audit 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 Disclosure Committee also has responsibility for overseeing the process for the formal review of the contents of the Company's Annual Report.

Changes in internal controls

No change in the Group's internal control over financial reporting has occurred during the year ended 30 June 2011 that has materially affected, or is reasonably likely to materially affect, the Group's internal control over financial reporting.

Use of external auditor

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

- those services which the auditor is not permitted to provide;
- those services which are acceptable for the auditor 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 auditor is 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 auditor is reviewed by the Audit Committee on a quarterly basis.

For the year ended 30 June 2011, the Audit Committee has discussed the matter of audit independence with Deloitte LLP, the Group's external auditor, 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 Audit 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. Services provided during the year were approved by the Audit Committee. An analysis of auditor remuneration is disclosed in note 7 to the consolidated financial statements.

The appointment of Deloitte LLP as the Group's external auditor (incumbents since 2002) is kept under review. The Audit Committee has approved the external auditor's remuneration and terms of engagement and is fully satisfied with the performance, objectivity and independence of the external auditor. The Audit Committee has recommended that a resolution to reappoint the external auditor as the Company's statutory auditors be proposed at the Company's forthcoming AGM. The external auditor is required to rotate the audit partner responsible for the engagement every five years. The current lead partner started his term of office in relation to 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 CGN Committee conducts an annual review of Directors' conflicts and reports its findings to the Board.

The CGN 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 CGN Committee and the Board will continue to monitor and review potential conflicts of interest on a regular basis.

Data Governance

The Data Governance Committee (the "DG Committee") reports to the Audit Committee and a committee of senior management, which is chaired by the Group Director of Business Performance. The DG 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 DG 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 122 to 123 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 2010 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 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 59.

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 2011 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 pages 4 to 5
- Performance KPIs on pages 6 to 7
- Review of the business on pages 8 to 17
- Financial and operating review on pages 29 to 35
- Principal risks and uncertainties that face the Group are described on pages 24 to 28
- Significant trends that could have a material effect on the performance of the Group are described on pages 34 to 35
- People matters on pages 22 to 23
- Community and environmental matters on pages 18 to 22.

Pages 4 to 58 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'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 2011 was £810 million (2010: £878 million). The Directors recommend a final dividend for the year ended 30 June 2011 of 14.54 pence per ordinary share which, together with the interim dividend of 8.74 pence paid to shareholders on 21 April 2011, will make a total dividend for the year of 23.28 pence (2010: 19.40 pence). Subject to approval at the AGM, the final dividend will be paid on 9 December 2011 to shareholders appearing on the register at the close of business on 18 November 2011.

Share capital

The Company's issued ordinary share capital at 30 June 2011 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 26 and 27 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 2011, 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)	90,751,601	5.18
BlackRock, Inc.(ii)	87,559,067	4.99
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 2011, 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 Employee Share Ownership Plan ("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 2011, the ESOP had an interest in 13,832,609 of the Company's ordinary shares. The Trustees, who are independent of the Company, have full discretion on 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 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 may be 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.

Directors' powers in relation to the Company issuing and buying back its own shares

The Directors were granted authority at the 2010 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 2011 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.

On 28 July 2011, the Board agreed to seek the necessary approvals to return £750 million of capital to shareholders via a share buy-back programme. Shareholder approvals will be sought at the Company's AGM on 29 November 2011. The Company has entered into an agreement with News Corporation under which, following any market purchases of shares by the Company, News Corporation will sell to the Company sufficient shares to maintain its percentage shareholding at the same level as applied prior to those market purchases. The price payable to News Corporation will be the price payable by the Company in respect of the relevant market purchases. The agreement is conditional on the appropriate shareholder approvals being granted. The effect of the agreement is to provide that there will be no change in News Corporation's economic or voting interests in the Company as a result of the share buy-back programme.

Articles of association

The Company's articles of association may only be amended by special resolution at a general meeting of shareholders.

Board of Directors

The names and biographical details of the Directors of the Company are given on pages 36 to 37. There were no changes to the Board of Directors during the financial year.

The Directors' interests in the ordinary shares and options of the Company are disclosed within the report on Directors' remuneration on pages 49 to 58.

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. The Company's current articles of association state that one-third of the Directors must retire by rotation each year. Any Director who has served more than three three-year terms (other than those holding an executive position) is subject to annual reappointment.

At the Company's 2011 AGM all current Executive and Non-Executive Directors will retire. It is the intention that Allan Leighton and David Evans will not seek reappointment but all the other Executive Directors and Non-Executive Directors will offer themselves for reappointment in accordance with provision B.7.1 of the Code.

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 2011 (2010: below 45 days), based on the total amount invoiced by non programme trade suppliers during the year ended 30 June 2011. 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 (2010: below 45 days).

Financial instruments

Details of the Group's use of financial instruments, together with information on our financial risk management objectives and policies, and our exposure to financial risks can be found in note 25 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 October 2011, 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

Other governance and statutory disclosures

continued

and environmental activities is also provided in the review of the business on pages 18 to 22.

During the financial year the Group gave a total of £4,254,379 (2010: £3,840,454) 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 £301,856 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 £1,175,655 to activities that help protect the environment and tackle climate change through charitable donations to organisations such as WWF and Global Action Plan;
- Arts: the Group gave £862,514 to activities which make the arts more accessible through charitable donations to organisations such as Artichoke and English National Ballet; and
- Sport: the Group gave £1,914,354 to encourage participation in sport through donations to organisations such as the Youth Sport Trust and British Cycling.

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 2011 amounted to nil (2010: £3,800).

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 and operating review on pages 29 to 35. In addition, notes 23, 24 and 25 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 102 to 103, 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 enquiries, 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 auditor is 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 auditor is 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 29 November 2011 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 2011

Report on Directors' remuneration

Remuneration policy overview

- In setting remuneration policy and levels, the Remuneration Committee (the "Committee") is guided by the performance of the Company, relevant external factors and the responsibility it has to shareholders in line with good governance practice.
- The Company's objective on pay policy 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.
- This year has seen tough market conditions prevail, however, the Company has continued to outperform and has delivered an excellent level of growth despite the economic environment.
- Executive reward for this achievement is delivered through performance based incentives, rather than fixed pay, continuing the Committee's principle of paying for performance. As a consequence the ratio of fixed pay to variable pay remains one of the lowest in the FTSE 100.
- The Committee is also mindful of the overall Company policy on pay and supports Executive and senior management pay changes in that context. It is supportive of the Company's stance on linking pay to performance across the Company and notes the improvement of linking annual employee reviews to pay.
- Shareholders should note that in circumstances in which there is significant share price out-performance, reported compensation in a single period may appear higher than market norms, since total remuneration is so heavily geared towards variable pay.

1. Membership of the Remuneration Committee

During the year ended 30 June 2011, the Committee met four times and was comprised of the following Independent Non-Executive Directors:

- Nicholas Ferguson (Chairman)
- David Evans
- Jacques Nasser
- Daniel Rimer

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. HNBS is now wholly-owned by Aon Corporation and while other companies within the Aon group do undertake material non-remuneration work for the Company, the Committee does not believe that the independence of HNBS is compromised in any way. Executives were not present when matters affecting their 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 is supported by the Company Secretary, Finance and Human Resources functions. In addition to the regular meetings with its shareholders, the Company holds a specific formal annual consultation meeting 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; and
- 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.

Report on Directors' remuneration

continued

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 • Operating cash flow • Customer net growth
Long Term Incentive Plan (LTIP) award (section 4.6)	Payable against achievement of stretching long-term objectives	3 years	For awards vesting in 2011: • 30% subject to TSR performance vs. the FTSE 100 over 3 years • 70% subject to 3 year operational targets For awards vesting in 2013: • 100% subject to 3 year operational targets (see section 4.6 vesting of LTIP Awards) Operational Targets for all LTIP awards: • EPS • Operating cash flow • Revenue growth
Co-Investment LTIP award (section 4.7)	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 3 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.

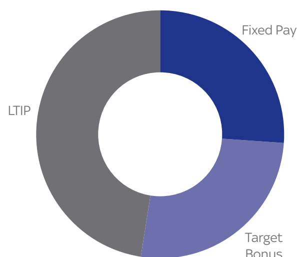
Notes:

Operating profit, operating cash flow, EPS and revenue growth are generally defined as adjusted operating profit, adjusted operating cash flow, adjusted EPS and adjusted revenue growth, however the Committee will review the measures and may amend definitions at its discretion.

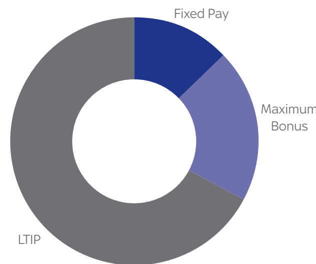
Remuneration mix

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 below market norms for Executive Directors.

4.2 Basic salary

The Committee annually reviews basic salaries for Executive Directors and Senior Executives against a subset of the FTSE 100 as its benchmark. The benchmarking group is comprised of 20 companies of a similar size. It also takes into consideration the pay principles applied elsewhere in the Company.

The Committee has reviewed salary levels for 2011, and awarded Jeremy Darroch an increase of 5.3% to £935,000 and Andrew Griffith an increase of 5% to £573,500 from 1 July 2011.

Following the salary increases awarded on 1 July 2011 the Executive Directors' salaries are at the median of the comparator benchmark data.

4.3 Pensions

The Company operates a single pension plan, the BSkyB Pension Plan ("Pension Plan"), to all eligible employees. The Pension Plan 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 this contribution rate is well below market norms. The Group has no legacy defined benefit plans.

During the year, the Committee reviewed the Company's pension policy for its Executive Directors and has given Jeremy Darroch a cash supplement of £61,253.

The Pension 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 a pension, or 50% lump sum and 50% pension, or entirely as a lump sum, subject to the lifetime allowance.

The Pension Plan also has enhanced Life Assurance cover up to four times annual salary, for those employees who decide not to join the Pension Plan they receive Life Assurance of two times annual salary.

4.4 Other benefits

Executive Directors are entitled to the use of a company car and along with all employees, private medical insurance.

Variable Pay

The Committee maintains that performance-related elements of pay will represent a higher proportion of total remuneration than market norms. As a result, a large amount of pay is at risk and therefore, pay is only competitive if the Company's stretching targets are achieved.

4.5 Annual bonus

For the CEO, the maximum bonus that may be awarded is 200% of salary and for the CFO, the maximum bonus that may be awarded is 150% of salary.

For the year ended 30 June 2011, the operational measures that governed bonus were operating profit, free cash flow and TV customer growth. Performance during the past year was very strong and the Company exceeded each of the targets set. As a result, the CEO and CFO were awarded the following bonus payments:

	Bonus amount (£)	As a % of salary
Jeremy Darroch	1,776,000	200%
Andrew Griffith	819,000	150%

For the year ending 30 June 2012 the operational measures that govern bonus payouts will be operating profit, operating cash flow and customer net growth. The Committee believes this change simplifies and aligns targets with the Company's strategy. The cash flow measure is now the same as the LTIP. The change to customer net growth includes customers across all areas rather than just one specific area of 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.

Report on Directors' remuneration

continued

4.6 LTIP

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

- subject to stretching performance conditions.
- 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.

Design of LTIP

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 a three-year period, subject to performance conditions. In the second year a further discretionary award of up to and normally no more than 100% of the year one award may be granted. This award vests at the same time as the year one award. The grant is made in terms of a number of shares as opposed to a monetary value and therefore its value may fluctuate with movements in the share price.

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.

Vesting of LTIP awards

The awards vest, in full or in part, dependent on 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.

For the awards made in 2008 and 2009 (which will vest in 2011), 70% of the award is dependent on operational measures, while 30% is governed by TSR performance.

For the awards made in 2010 and any awards made in 2011 (which will vest in 2013), 100% of the award is dependent on operational measures. TSR is not a measure of performance for awards vesting in 2013 as the Company's share price at the time of grant was materially impacted by the possible bid from News Corporation.

For existing and future awards granted under the Company's LTIP, the period during which participants, still employed by the Company, will be entitled to exercise their shares following the vesting of their awards will be increased to five years.

The specifics of the measures and targets are as follows:

i) Operational targets

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

The operational performance conditions for the LTIP are EPS growth, operating cash flow and revenue growth. EPS provides a measure of shareholder return that is measureable over time. Operating cash flow measures the underlying health of the business. Revenue growth is a key measure of how the Group is delivering on its strategy to grow the business.

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 for awards vesting in 2011		
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%

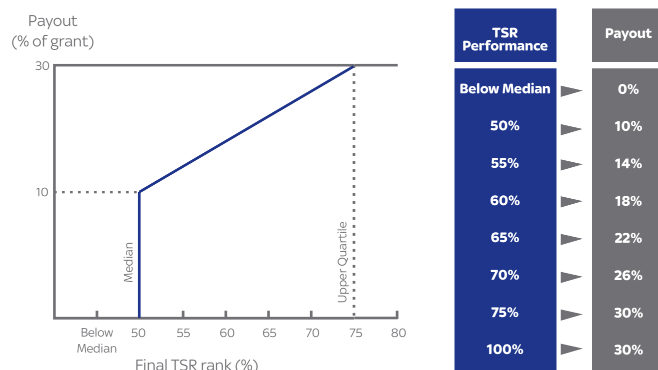
Actual Points Awarded		
EPS growth	Operating Cash Flow	Revenue growth
Actual points awarded	Actual points awarded	Actual points awarded
10	10	8.49

The number of points awarded exceeded 21; therefore, 100% of the operational portion of the LTIP vested in accordance with the table above.

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 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 2013

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

100% of the award that vests in 2013 is dependent on operational measures.

The Company will re-introduce the TSR measure for the 2012 awards.

2011 LTIP awards

As part of the 2011 LTIP grant cycle Jeremy Darroch will be granted an award of 600,000 shares and Andrew Griffith will be granted an award of 320,000 shares.

At the outset of the potential bid from News Corporation, the Independent Non-Executive Directors of the Board reviewed and discussed the retention of the Executive Directors and agreed to pay an additional bonus to the Executive Directors at 31 July 2011. It was subsequently agreed that this would be paid in the form of an additional LTIP award subject to the above performance conditions. As a consequence Jeremy Darroch will be granted an award of 300,000 shares and Andrew Griffith will be granted an award of 135,000 shares.

4.7. Co-Investment LTIP

The Company operates a Co-Investment LTIP, where matching shares are provided via the LTIP for Executive Directors and Senior Executives and via the Management LTIP for other selected employees. The Committee believes that awards under the Co-Investment facility further align Executives with shareholders by promoting the ownership of Company shares. Awards are granted annually.

Participants in the plan invest their own money in the Company's shares and then are granted a conditional matching award of Company shares based on the amount they have invested. These matching shares vest at the end of a three-year period, subject to achieving EPS targets. The shares are matched up to a maximum of 1.5 shares for every one share invested on a pre-tax basis. The investment eligible to receive matching shares is limited to an amount equivalent to 50% of a participant's gross annual bonus.

Performance conditions

Awards are subject to EPS growth targets. EPS growth of RPI +3% p.a. is required for vesting at target (1x match) with growth of RPI +6% for maximum (1.5x match); straight-line vesting will apply for achievement levels between 3% and 6%.

As participants have invested their own money in the Company's shares they 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 replaced options granted under the Executive Share Option Scheme. Selected employees participate in the Management LTIP, but this does 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 Executive Directors and Senior Executives, with the same performance conditions.

5.2 Sharesave Scheme

The Sharesave Scheme is open to 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 of 100 shares was made to all employees in 2009 to celebrate the Company's 20th anniversary. These shares will be delivered in February 2012. 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 a Non-Executive Director of Marks and Spencer Group plc and retained fees for this appointment of £79,000 for the year ended 30 June 2011.

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.

Both Executive Directors are 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.

Each Executive Director 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, both Executive Directors 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 an Executive Director'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

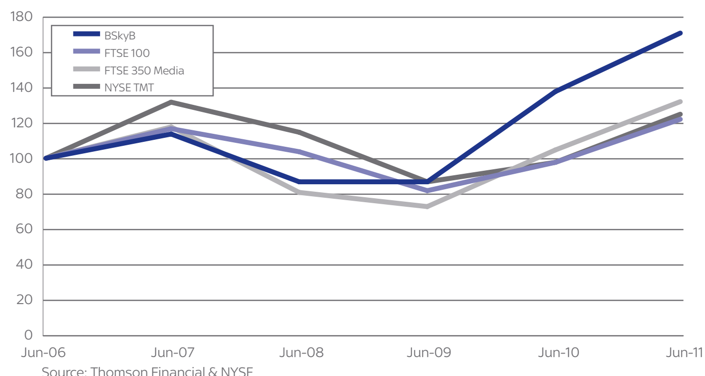
There has been a 5% increase in the basic fees payable to the Non-Executive Directors and the Chairman set by the Board of Directors for the financial year ending 30 June 2012; basic fees are £56,500 (2011: £53,800). Furthermore, the Non-Executive Directors will be paid an additional £10,000 (2011: £10,000) 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 (2011: £25,000). The Deputy Chairman will receive an additional fee of £40,000 (2011: £25,000). The Senior Independent Director will receive an additional fee of £20,000 per annum (2011: £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 Offer Committee, plus £25,000 per annum for the Chairman of the Offer Committee inclusive of the role of Deputy Chairman. On 13 July 2011 News Corporation announced that it no longer intended to make an offer for the entire issued share capital of the Company and the Offer Committee was subsequently disbanded on 28 July 2011.

8. Performance graph

The following graph shows the Company's performance measured by TSR in the five years to 30 June 2011. 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 2006 TO 30 JUNE 2011



Source: Thomson Financial & NYSE

During the year ended 30 June 2011, the share price traded within the range of 693.50 to 849.00 pence per share. The middle-market closing price on the last trading day of the financial year was 849.00 pence.

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. This is 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 2011 were:

Name of Director	At 28 July 2011	At 30 June 2011	At 30 June 2010
Jeremy Darroch	230,046	230,046	170,379
David Evans	19,188(i)	19,068(i)	17,651(i)
Nicholas Ferguson	12,312	12,239	11,224
Andrew Griffith	57,093	57,093	34,492
Andrew Higginson	4,557	4,485	3,447
Allan Leighton	8,244	8,054	4,673
Jacques Nasser	2,947	2,840	1,607
Dame Gail Rebuck	2,292	2,219	1,234
Daniel Rimer	10,286	9,876	4,359
Lord Wilson of Dinton	2,840	2,764	1,730

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.

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 2011 £	Employers pensions £	Total emoluments including pension 2011 £	Total emoluments including pension 2010 £
Executive							
Jeremy Darroch	888,000	1,776,000	73,562[(i)]	2,737,562	50,992	2,788,554	2,678,744
Andrew Griffith	546,000	819,000	15,985	1,380,985	43,274	1,424,259	1,235,909
Non-Executive							
James Murdoch	88,800	–	–	88,800	–	88,800	87,500
David DeVoe	53,800	–	–	53,800	–	53,800	52,500
David Evans	74,339	–	–	74,339	–	74,339	62,500
Nicholas Ferguson	155,685	–	–	155,685	–	155,685	117,500
Andrew Higginson	99,339	–	–	99,339	–	99,339	87,500
Allan Leighton	53,922	–	–	53,922	–	53,922	87,500
Thomas Mockridge	53,800	–	–	53,800	–	53,800	52,500
Jacques Nasser	74,339	–	–	74,339	–	74,339	62,500
Dame Gail Rebuck	109,339	–	–	109,339	–	109,339	97,500
Daniel Rimer	74,339	–	–	74,339	–	74,339	56,782
Arthur Siskind	63,800	–	–	63,800	–	63,800	62,500
Lord Wilson of Dinton	109,339	–	–	109,339	–	109,339	97,500
Total emoluments	**2,444,841**	**2,595,000**	**89,547**	**5,129,388**	**94,266**	**5,223,654**	**4,838,935**

This table is audited.

Notes:

(i) *Jeremy Darroch was given a pension supplement of £61,253 during the financial year following a review of the Company's pension policy by the Remuneration Committee. See section 4.3 for further information.*

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 2010	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2011	Exercise price	Market price at date of exercise	Date of Award	Date from which exercisable	Expiry date[(ii)]
Jeremy Darroch	600,000	–	–	–	600,000	n/a	n/a	31.07.08	31.07.11	31.07.16
	600,000	–	–	–	600,000	n/a	n/a	26.08.09	31.07.11	31.07.16
	–	600,000[(i)]	–	–	600,000	n/a	n/a	29.07.10	29.07.13	29.07.18
Andrew Griffith	320,000	–	–	–	320,000	n/a	n/a	31.07.08	31.07.11	31.07.16
	320,000	–	–	–	320,000	n/a	n/a	26.08.09	31.07.11	31.07.16
	–	320,000[(i)]	–	–	320,000	n/a	n/a	29.07.10	29.07.13	29.07.18

This table is audited.

Notes:

The aggregate value received by the Directors on exercise of the LTIP before tax was £nil (2010: £10,506,763).

See performance conditions for LTIP on page 50.

(i) *The market price of the shares at the time the shares were awarded was 711p.*

(ii) *Following the vesting of awards, participants, still employed by the Company, will have five years to exercise their shares.*

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 2010	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2011	Exercise price	Market price at date of exercise	Date of Award	Date from which exercisable	Expiry date
Jeremy Darroch	204,425[(i)]	–	–	–	204,425	n/a	n/a	27.08.09	27.08.12	27.08.17
	–	183,935[(ii)]	–	–	183,935	n/a	n/a	31.08.10	31.08.13	31.08.18
Andrew Griffith	75,506[(iii)]	–	–	–	75,506	n/a	n/a	27.08.09	27.08.12	27.08.17
	–	69,672[(iv)]	–	–	69,672	n/a	n/a	31.08.10	31.08.13	31.08.18

This table is audited.

Notes:

See performance conditions for the Co-Investment Plan on page 50.

(i) *Jeremy Darroch holds 79,848 shares as a match under this award.*

(ii) *Jeremy Darroch holds 59,667 shares as a match under this award.*

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

(iv) *Andrew Griffith holds 22,601 shares as a match under this award.*

13. Executive Share Options

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

	Number of shares under award								
Name of Director	At 30 June 2010	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2011	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 award							
Name of Director	At 30 June 2010	Granted during the year	Exercised during the year	At 30 June 2011	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
Jeremy Darroch	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.

Report on Directors' remuneration

continued

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 2010	Granted during the year	Exercised during the year	At 30 June 2011	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 2011

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 risks and uncertainties that they face.

By order of the Board

Jeremy Darroch
Chief Executive Officer
28 July 2011

Andrew Griffith
Chief Financial Officer
28 July 2011

Independent Auditor's report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRITISH SKY BROADCASTING GROUP PLC

We have audited the financial statements of British Sky Broadcasting Group plc for the year ended 30 June 2011 which comprise the Consolidated and Company Income Statements, the Consolidated and Company Statements of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statements of Changes in Equity and the related notes 1 to 35. 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 auditor's 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 auditor

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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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 Consolidated 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 Consolidated 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 48;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

William Touche (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
28 July 2011

Consolidated financial statements

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2011

	Notes	2011 £m	2010 £m
Continuing operations			
Revenue	2	**6,597**	**5,709**
Operating expense	3	(5,524)	(4,865)
Litigation settlement income	4	–	269
Operating profit		**1,073**	**1,113**
Share of results of joint ventures and associates	16	34	32
Investment income on litigation settlement	4	–	49
Investment income	5	9	3
Finance costs	5	(111)	(122)
Profit on disposal of available-for-sale investment	6	9	115
Profit before tax	7	**1,014**	**1,190**
Taxation	9	(256)	(294)
Profit for the year from continuing operations		**758**	**896**
Discontinued operations			
Profit (loss) for the year from discontinued operations	10	52	(18)
Profit for the year attributable to equity shareholders of the parent company		**810**	**878**
Earnings (loss) per share from profit (loss) for the year (in pence)			
Basic			
Continuing operations	11	43.5p	51.4p
Discontinued operations	11	3.0p	(1.0)p
Total	11	46.5p	50.4p
Diluted			
Continuing operations	11	43.0p	51.1p
Discontinued operations	11	2.9p	(1.0)p
Total	11	45.9p	50.1p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2011

	2011 £m	2010 £m
Profit for the year attributable to equity shareholders of the parent company	**810**	**878**
Other comprehensive income		
Amounts recognised directly in equity		
Exchange differences on translation of foreign operations	(8)	8
Gain on revaluation of available-for-sale investments	59	117
(Loss) gain on cash flow hedges	(130)	160
Tax on cash flow hedges	36	(45)
	(43)	240
Amounts reclassified and reported in the income statement		
Gain (loss) on cash flow hedges	42	(89)
Tax on cash flow hedges	(11)	25
Transfer to income statement on disposal of available-for-sale investment	–	(115)
Transfer to income statement on disposal of foreign operations	4	–
	35	(179)
Other comprehensive (loss) income for the year (net of tax)	**(8)**	**61**
Total comprehensive income for the year attributable to equity shareholders of the parent company	**802**	**939**

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

CONSOLIDATED BALANCE SHEET

as at 30 June 2011

	Notes	2011 £m	2010 £m
Non-current assets			
Goodwill	13	944	852
Intangible assets	14	462	336
Property, plant and equipment	15	896	899
Investments in joint ventures and associates	16	151	149
Available-for-sale investments	17	215	182
Deferred tax assets	18	69	–
Trade and other receivables	20	13	18
Derivative financial assets	24	275	382
		3,025	2,818
Current assets			
Inventories	19	375	343
Trade and other receivables	20	592	538
Short-term deposits	24	430	400
Cash and cash equivalents	24	921	649
Derivative financial assets	24	11	56
		2,329	1,986
Total assets		**5,354**	**4,804**
Current liabilities			
Borrowings	23	8	8
Trade and other payables	21	1,675	1,526
Current tax liabilities		187	136
Provisions	22	21	27
Derivative financial liabilities	24	21	10
		1,912	1,707
Non-current liabilities			
Borrowings	23	2,325	2,450
Trade and other payables	21	26	52
Provisions	22	9	11
Derivative financial liabilities	24	47	17
Deferred tax liabilities	18	–	7
		2,407	2,537
Total liabilities		**4,319**	**4,244**
Share capital	26	876	876
Share premium	27	1,437	1,437
Reserves	27	(1,278)	(1,753)
Total equity attributable to equity shareholders of the parent company	**27**	**1,035**	**560**
Total liabilities and shareholders' equity		**5,354**	**4,804**

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 2011 and were signed on its behalf by:

Jeremy Darroch
Chief Executive Officer

Andrew Griffith
Chief Financial Officer

Business review
Financial review
Governance
Financial statements
Shareholder information
Glossary of terms

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 2011

	Notes	2011 £m	2010 £m
Continuing operations			
Cash flows from operating activities			
Cash generated from operations	28	1,569	1,626
Interest received		7	57
Taxation paid		(219)	(319)
Net cash from operating activities		**1,357**	**1,364**
Cash flows from investing activities			
Dividends received from joint ventures and associates		29	30
Net funding to joint ventures and associates		(4)	(1)
Proceeds on disposal of investments		32	196
Purchase of property, plant and equipment		(197)	(246)
Purchase of intangible assets		(226)	(183)
Purchase of subsidiaries (net of cash and cash equivalents purchased)		(222)	–
Proceeds on disposal of property, plant and equipment		–	1
Increase in short-term deposits		(30)	(310)
Net cash used in investing activities		**(618)**	**(513)**
Cash flows from financing activities			
Repayment of borrowings		–	(495)
Repayment of obligations under finance leases		(1)	–
Proceeds from disposal of shares in Employee Share Ownership Plan ("ESOP")		32	16
Purchase of own shares for ESOP		(90)	(56)
Interest paid		(124)	(156)
Dividends paid to shareholders		(353)	(314)
Net cash used in financing activities		**(536)**	**(1,005)**
Net increase (decrease) in cash and cash equivalents from continuing operations		**203**	**(154)**
Cash generated from (used in) discontinued operations	10	69	(8)
Cash and cash equivalents at the beginning of the year		649	811
Cash and cash equivalents at the end of the year		**921**	**649**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2011

	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 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**
Profit for the year	–	–	–	–	–	–	810	810
Exchange differences on translation of foreign operations	–	–	–	–	–	(8)	–	(8)
Transfer to income statement on disposal of foreign operations	–	–	–	–	–	4	–	4
Revaluation of available-for-sale investment	–	–	–	–	59	–	–	59
Recognition and transfer of cash flow hedges	–	–	–	(88)	–	–	–	(88)
Tax on items taken directly to equity	–	–	–	25	–	–	–	25
Total comprehensive income for the year	**–**	**–**	**–**	**(63)**	**59**	**(4)**	**810**	**802**
Share-based payment	–	–	(60)	–	–	–	70	10
Tax on items taken directly to equity	–	–	–	–	–	–	19	19
Purchase of non-controlling interest	–	–	–	–	–	–	(3)	(3)
Dividends	–	–	–	–	–	–	(353)	(353)
At 30 June 2011	**876**	**1,437**	**(107)**	**14**	**157**	**358**	**(1,700)**	**1,035**

For a description of the nature and purpose of each equity reserve, see note 27.

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 has adopted the new accounting pronouncements which became effective this year, none of which had any significant impact on the Group's results or financial position.

The Group maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal year 2011, this date was 3 July 2011, this being a 53 week year (fiscal year 2010: 27 June 2010, 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

1. Accounting policies *continued*

sale or 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 3 and 25 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 to 40 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. 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 29). 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 customers. The amount recognised in the income statement is determined on a weighted average cost basis, in accordance with IAS 2 "Inventory".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

1. Accounting policies *continued*

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 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 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 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 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 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 DTH services, 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 and other 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.
- Installation, hardware and service revenue is recognised in the income statement when the goods and services are activated.
- Other revenue principally includes income from Sky Active, Sky Mobile TV, Sky Player, 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

1. Accounting policies *continued*

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 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 substantively 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 2011 or later periods. These new pronouncements are listed below:

- Amendment to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective 1 January 2011)
- IAS 24 Revised (2009) " Related Party Disclosures" (effective 1 January 2011)
- Improvements to IFRSs 2010 – various standards (effective 1 January 2011)
- IFRS 9 "Financial Instruments" (effective 1 January 2013)
- IFRS 10 "Consolidated Financial Statements" (effective 1 January 2013)
- IFRS 11 "Joint Arrangements" (effective 1 January 2013)
- IFRS 12 "Disclosure of Interests in Other Entities" (effective 1 January 2013)
- IFRS 13 "Fair Value Measurement" (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, in the Directors' judgment, its selection or application materially affects the Group's financial position or results. 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 13)

- Judgment is required in determining the fair value of identifiable assets, liabilities and contingent liabilities 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 14 and 15)

- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

1. Accounting policies *continued*

- 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. Deferred tax (see note 18)

- 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.

vi. Programming inventory (see note 19)

- 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 seasons or competitions. 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 TV customers and encourage retention of existing TV 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

	2011 £m	2010 £m
Continuing operations		
Retail subscription	5,455	4,761
Wholesale subscription	323	238
Advertising	458	340
Installation, hardware and service	112	174
Other	249	196
	6,597	**5,709**

To provide a more relevant presentation, management has reclassified online properties and Sky Magazine advertising revenue of £19 million in the current period and £21 million in the comparative period from other revenue to advertising revenue.

Revenue from continuing operations arises from goods and services provided to the UK, with the exception of £422 million (2010: £378 million) which arises from services provided to other countries.

3. Operating expense

	2011 £m	2010 £m
Continuing operations		
Programming	2,188	1,902
Direct networks	584	440
Transmission, technology and fixed networks	395	307
Marketing(ii)	1,179	1,115
Subscriber management and supply chain(iii)(iv)	596	634
Administration(i)(iii)(v)	582	467
	5,524	**4,865**

(i) Included within administration costs for the year ended 30 June 2011 is £26 million of restructuring costs arising on the acquisition of Living TV, which comprise principally redundancy payments and the early termination of a pre-acquisition contract and £15 million of costs in relation to the News Corporation proposal.

(ii) Included within marketing costs for the year ended 30 June 2011 is a credit of £41 million in relation to import duty on set-top boxes paid out in prior years. This duty is recoverable due to the judgment given by the Court of Justice of the European Union ("ECJ") on 14 April 2011.

(iii) 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 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.

(iv) Included within subscriber management and supply chain costs for the year ended 30 June 2010 is a £5 million credit related to the cancellation of accounts payable on settlement of the claim against EDS.

(v) Included within administration costs for the year ended 30 June 2010 is £1 million of expense relating to legal costs incurred on the Group's claim against EDS.

4. Litigation settlement income and investment income on litigation settlement

In the prior year, 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.

In the prior year, the Group 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 was recognised in litigation settlement income, representing settlement for costs and damages.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

5. Investment income and finance costs

	2011 £m	2010 £m
Investment income		
Cash, cash equivalents and short-term deposits	9	3

	2011 £m	2010 £m
Finance costs		
– Interest payable and similar charges		
£750 million/£1 billion Revolving Credit Facilities ("RCF")	(6)	(11)
Guaranteed Notes (see note 23)	(116)	(116)
Finance lease interest	(7)	(8)
	(129)	**(135)**
– Other finance income (expense)		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	17	16
Remeasurement of other derivative financial instruments (not qualifying for hedge accounting)	(2)	(1)
(Loss) gain arising on derivatives in a designated fair value hedge accounting relationship	(4)	36
Gain (loss) arising on adjustment for hedged item in a designated fair value hedge accounting relationship	7	(38)
	18	**13**
	(111)	**(122)**

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% (2010: 5.3%) to expenditure on such assets. The amount capitalised in the current year amounted to less than £1 million (2010: less than £1 million).

6. Profit on disposal of available-for-sale investment

On 5 April 2011, the Group sold its available-for-sale investment in Shine Limited ("Shine") for a maximum consideration of £36 million, of which £31 million has been received to date. The remaining consideration is contingent on certain post transaction criteria and is currently held in escrow. At the date of disposal, the Group estimated the fair value of the contingent consideration to be £4 million and recorded a profit on disposal of £9 million, being the excess of the recognised consideration above the carrying value of the shares.

In the prior year, 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 48.5 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 the shares in ITV.

Business review
Financial review
Governance
Financial statements
Shareholder information
Glossary of terms

7. Profit before taxation

Profit before taxation is stated after charging (crediting):

	Continuing operations £m	Discontinued operations £m	Total £m
Year ended 30 June 2011			
Cost of inventories recognised as an expense	1,850	–	1,850
Depreciation and impairment of property, plant and equipment	173	3	176
Amortisation and impairment of intangible assets	159	1	160
Rentals on operating leases and similar arrangements	42	2	44
Year ended 30 June 2010			
Cost of inventories recognised as an expense	1,716	–	1,716
Depreciation and impairment of property, plant and equipment	154	19	173
Amortisation and impairment of intangible assets	184	5	189
Rentals on operating leases and similar arrangements	37	10	47

Consolidated non-current assets outside the UK were £2 million (2010: £29 million).

Foreign exchange

Foreign exchange losses recognised in the income statement during the year amounted to less than £1 million (2010: £3 million).

Audit fees

An analysis of auditor's remuneration is as follows:

	2011 £m	2010 £m
Total audit fees	**1**	**2**
Other services pursuant to legislation	1	1
Total non-audit fees	**1**	**1**
Total auditor remuneration	**2**	**3**

Fees payable to the Company's auditor for the audit of the Company's annual accounts were £0.9 million (2010: £1.2 million) and fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation were £0.4 million (2010: £0.6 million).

Amounts paid to the auditor for non-audit fees include transaction services fees of £0.5 million (2010: nil), the interim review fee of £0.2 million (2010: £0.2 million), other audit related services of £0.1 million (2010: £0.2 million) and tax fees of nil (2010: £0.2 million).

8. Employee benefits and key management compensation

a) Group employee benefits

	2011 £m	2010 £m
Wages and salaries	651	631
Social security costs	80	76
Costs of employee share option schemes(i)	67	32
Contributions to the Group's pension schemes(ii)	27	27
	825	**766**

(i) A £69 million charge relates to equity-settled share-based payments (2010: £35 million charge) and a credit of £2 million relates to cash-settled share-based payments (2010: £3 million credit). At 30 June 2011, there were no liabilities arising from share-based payment transactions (2010: £5 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 2011 was £4 million (2010: £3 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

8. Employee benefits and key management compensation *continued*

The average monthly number of full-time equivalent persons (including temporary employees) employed by the Group during the year was as follows:

	2011 Number	2010 Number
Channels and services	2,498	2,670
Customer service, sales and marketing	9,440	9,463
Transmission and technology	2,753	2,650
Management and administration	1,315	1,656
	16,006	**16,439**

There are approximately 446 (2010: 538) temporary staff included within the average number of full-time equivalent persons employed by the Group.

b) Key management compensation (see note 32d)

	2011 £m	2010 £m
Short-term employee benefits	5	5
Share-based payments	6	4
	11	**9**

Post-employment benefits were less than £1 million (2010: less than £1 million). The amounts disclosed for key management compensation are included within the disclosures in note 8(a).

9. Taxation

a) Taxation recognised in the income statement

	2011 £m	2010 £m
Current tax expense		
Current year	386	305
Adjustment in respect of prior years	(115)	(23)
Total current tax charge	**271**	**282**
Deferred tax expense		
Origination and reversal of temporary differences	(17)	9
Adjustment in respect of prior years	10	4
Total deferred tax (credit) charge	**(7)**	**13**
Taxation	**264**	**295**
Continuing operations	256	294
Discontinued operations (see note 10)	8	1
	264	**295**

Taxation relates to a £264 million UK corporation tax charge (2010: £288 million) and a Luxembourg corporation tax charge of nil (2010: £7 million).

b) Taxation recognised directly in equity

	2011 £m	2010 £m
Current tax credit relating to share-based payments	(2)	–
Deferred tax credit relating to share-based payments	(17)	(9)
Deferred tax (credit) charge relating to cash flow hedges	(25)	20
	(44)	**11**

c) Reconciliation of effective tax rate

The tax expense for the year is lower (2010: lower) than the expense that would have been charged using the standard rate of corporation tax in the UK (27.5%) applied to profit (loss) before tax. The applicable enacted or substantively enacted effective rate of UK corporation tax for the year was 27.5% (2010: 28%). The differences are explained below:

	2011 £m	2010 £m
Profit (loss) before tax:		
– Continuing operations	1,014	1,190
– Discontinued operations	60	(17)
	1,074	**1,173**
Profit before tax multiplied by standard rate of corporation tax in the UK of 27.5% (2010: 28%)	295	328
Effects of:		
Non-deductible expense(i)	83	17
Deferred tax write off following tax rate change	2	–
Tax attributed to discontinued operations	8	1
Tax exempt gain on discontinued operations	(17)	–
Tax exempt gain on disposal of available-for-sale investments(ii)	(2)	(32)
Over provision in respect of prior years (i)	(105)	(19)
Taxation	**264**	**295**

(i) This includes the tax effect of agreeing a number of historic issues with HMRC resulting in a credit to prior year tax liability and a debit to current year tax liability.

(ii) This is the tax effect of the gain on disposal of the available-for-sale investments relating to the Group's investments in Shine for the year ended 30 June 2011 and ITV for the year ended 30 June 2010, see note 6.

10. Discontinued operations

On 1 September 2010, the Group completed the sale of its business-to-business telecommunications operation, Easynet Global Services ("Easynet"), to Lloyds Development Capital ("LDC") for £100 million. Subsequent to this an agreed working capital adjustment reduced total net consideration to £94 million.

The Group retains 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 entered into a long-term supply agreement to grant Easynet continued access to the Group's fibre network and Easynet continues to be a key supplier of data network and hosting services to the Group.

Easynet represented a separate major line of business for the Group. As a result its operations have been treated as discontinued for the year ended 30 June 2011 and the year ended 30 June 2010. A single amount is shown on the face of the consolidated income statement comprising the post-tax result of discontinued operations and the post-tax profit recognised on the disposal of the discontinued operation.

A pre-tax profit of £62 million arose on the disposal of Easynet being the net proceeds of disposal less the carrying amount of Easynet's net liabilities and attributable goodwill.

The results of discontinued operations, which have been included in the consolidated income statement, were as follows:

	2011(i) £m	2010 £m
Revenue	32	203
Operating expense	(34)	(220)
Operating loss	**(2)**	**(17)**
Profit on disposal	62	–
Profit (loss) before tax	**60**	**(17)**
Attributable tax expense(ii)	(8)	(1)
Profit (loss) for the year from discontinued operations	**52**	**(18)**

(i) Results for the year ended 30 June 2011 include the results of discontinued operations up to the date of disposal (1 September 2010).

(ii) Attributable tax expense comprises nil (2010: £1 million) in respect of operating activities and £8 million (2010: nil) arising as a result of the disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

10. Discontinued operations *continued*

The net liabilities of Easynet at the date of disposal were:

	1 September 2010 £m
Non-current assets	
Intangible assets	21
Property, plant and equipment	40
	61
Current assets	
Inventory	1
Trade and other receivables	47
Cash and cash equivalents	16
	64
Total assets	**125**
Current liabilities	
Trade and other payables	83
Provisions	1
	84
Non-current liabilities	
Trade and other payables	37
Deferred tax liability	5
	42
Total liabilities	**126**
Net liabilities	**(1)**
Total consideration	94
Net liabilities disposed	1
Attributable goodwill	(30)
Foreign exchange recycled to the income statement on disposal	(4)
Other	1
Net profit on disposal	**62**
Consideration received in cash and cash equivalents	94
Less: cash and cash equivalents disposed of	(16)
Net cash inflow arising on disposal	**78**

During the year, cash flows attributable to Easynet comprised a net operating cash outflow of £7 million (2010: inflow of £7 million) and a net cash inflow in respect of investing activities of £76 million (2010: outflow of £15 million).

11. Earnings per share

The weighted average number of shares for the year was:

	2011 Millions of shares	2010 Millions of shares
Ordinary shares	1,753	1,753
ESOP trust ordinary shares	(10)	(10)
Basic shares	**1,743**	**1,743**
Dilutive ordinary shares from share options	20	11
Diluted shares	**1,763**	**1,754**

The calculation of diluted earnings per share excludes 2 million share options (2010: 11 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.

	2011 £m	2010 £m
Reconciliation from profit for the year from continuing operations to adjusted profit for the year from continuing operations		
Profit for the year from continuing operations	758	896
Living TV restructuring costs (see note 3)	26	–
Costs in relation to News Corporation proposal (see note 3)	15	–
Recovery of import duty on set-top boxes (see note 3)	(41)	–
Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness (see note 5)	(18)	(13)
Profit on disposal of available-for-sale investment (see note 6)	(9)	(115)
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
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 16)	–	(3)
Tax credit on settlement of liability[(i)]	(15)	–
Tax effect of above items	9	85
Adjusted profit for the year from continuing operations	**725**	**560**

(i) Tax credit arising on the settlement of the pre-acquisition tax liabilities of a subsidiary of the Group.

	2011 pence	2010 pence
Earnings (loss) per share from profit (loss) for the year		
Basic		
Continuing operations	43.5p	51.4p
Discontinued operations	3.0p	(1.0)p
Total	46.5p	50.4p
Diluted		
Continuing operations	43.0p	51.1p
Discontinued operations	2.9p	(1.0)p
Total	45.9p	50.1p
Adjusted earnings per share from adjusted profit for the year from continuing operations		
Basic	41.6p	32.1p
Diluted	41.1p	31.9p

12. Dividends

	2011 £m	2010 £m
Dividends declared and paid during the year		
2009 Final dividend paid: 10.10p per ordinary share	–	176
2010 Interim dividend paid: 7.875p per ordinary share	–	138
2010 Final dividend paid: 11.525p per ordinary share	201	–
2011 Interim dividend paid: 8.74p per ordinary share	152	–
	353	**314**

The 2011 final dividend proposed is 14.54 pence per ordinary share being £253 million. The dividend was not declared at the balance sheet date and is therefore not recognised as a liability as at 30 June 2011.

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. The ESOP has waived its rights to dividends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

13. Goodwill

	£m
Carrying value	
At 1 July 2009 and 30 June 2010	**852**
Purchase of Living TV Group ("Living TV")	79
Purchase of The Cloud Networks Limited ("The Cloud")	38
Other purchases	5
Disposal of Easynet Enterprise	(30)
At 30 June 2011	**944**

Goodwill has principally arisen from the Group's purchases of the Sports Internet Group ("SIG"), British Interactive Broadcasting ("BiB"), 365 Media, Amstrad, Living TV and The Cloud. Impairment reviews were performed on these goodwill balances at 30 June 2011, which did not indicate impairment.

The amount of goodwill deductible for tax purposes is £103 million (2010: nil). Goodwill, allocated by cash generating unit, is analysed as follows:

	2011 £m	2010 £m
Broadcast(i)	795	673
Betting and gaming(ii)	149	149
Easynet Enterprise(iii)	–	30
	944	**852**

The Broadcast unit includes intangibles with indefinite lives of £25 million (2010: nil).

Recoverable amounts for the cash generating units were calculated on the basis of value in use or fair value less costs to sell as appropriate, using cash flows calculated for the next 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 9% (2010: 10.4%).

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, Amstrad, Living TV and The Cloud. The key assumptions, on which forecast five year cash flows of the Broadcast unit were based, include the number of gross customer additions, the rate of churn, the average revenue per user, levels of programming spend, acquisition costs per customer 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 included goodwill arising from the purchase of Easynet's Enterprise broadband business in the UK and other European countries. The Group completed the sale of this business during the year (see note 10).

14. 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	Acquired intangible assets not yet available for use £m	Total £m
Cost							
At 1 July 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**
Additions from business combinations	–	–	2	90	–	–	92
Additions	49	22	3	60	14	67	215
Disposals	(23)	(51)	(22)	(1)	–	–	(97)
Disposals of discontinued operations	(5)	(2)	(17)	(19)	–	–	(43)
Transfers	19	73	2	–	(20)	(74)	–
At 30 June 2011	**214**	**347**	**88**	**243**	**26**	**92**	**1,010**
Amortisation							
At 1 July 2009	58	205	62	32	–	–	357
Foreign exchange movements	–	–	(1)	–	–	–	(1)
Amortisation	37	59	20	47	–	–	163
Impairments	3	1	–	–	–	22	26
Disposals	(6)	(10)	–	–	–	(22)	(38)
At 30 June 2010	**92**	**255**	**81**	**79**	**–**	**–**	**507**
Amortisation	35	53	16	53	–	–	157
Impairments	2	1	–	–	–	–	3
Disposals	(23)	(51)	(22)	(1)	–	–	(97)
Disposals of discontinued operations	(3)	(2)	(11)	(6)	–	–	(22)
At 30 June 2011	**103**	**256**	**64**	**125**	**–**	**–**	**548**
Carrying amounts							
At 1 July 2009	66	97	39	40	17	86	345
At 30 June 2010	82	50	39	34	32	99	336
At 30 June 2011	**111**	**91**	**24**	**118**	**26**	**92**	**462**

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 licenses, 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.

	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
Estimated amortisation charge	159	96	69	18	18

For intangible assets acquired in business combinations the average amortisation period is 20 years (2010: 3 years).

Other intangible assets include certain assets with indefinite useful lives. The carrying value of these assets is £25 million (2010: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

15. Property, plant and equipment

	Freehold land and buildings[(i)(ii)] £m	Leasehold improvements £m	Equipment, furniture and fixtures £m	Assets not yet available for use[(iii)] £m	Total £m
Cost					
At 1 July 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**
Additions from business combinations	–	–	3	–	3
Additions	2	2	167	39	210
Disposals	(1)	(2)	(18)	–	(21)
Disposals of discontinued operations	–	(14)	(136)	(2)	(152)
Transfers	145	–	83	(228)	–
At 30 June 2011	**332**	**59**	**1,139**	**30**	**1,560**
Depreciation					
At 1 July 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**
Depreciation	6	1	167	–	174
Impairments	–	–	2	–	2
Disposals	(1)	(2)	(18)	–	(21)
Disposals of discontinued operations	–	(4)	(108)	–	(112)
At 30 June 2011	**31**	**22**	**611**	**–**	**664**
Carrying amounts					
At 1 July 2009	106	48	454	191	799
At 30 June 2010	160	46	472	221	899
At 30 June 2011	**301**	**37**	**528**	**30**	**896**

(i) The amounts shown include assets held under finance leases with a net book value of £6 million (2010: £7 million). The cost of these assets was £11 million (2010: £11 million) and the accumulated depreciation was £5 million (2010: £4 million). Depreciation charged during the year on such assets was £1 million (2010: £1 million).

(ii) Depreciation was not charged on £88 million of land (2010: £88 million).

(iii) During the year, £223 million (2010: nil) of assets were transferred from assets not yet available for use to freehold land and buildings and equipment, furniture and fixtures in relation to the new broadcast facility at Osterley, Middlesex.

16. 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 34 to the consolidated financial statements.

The movement in joint ventures and associates during the year was as follows:

	2011 £m	2010 £m
Share of net assets:		
At 1 July	149	135
Movement in net assets		
– Funding, net of repayments	4	1
– Dividends received	(29)	(30)
– Share of profits[(i)]	34	32
– Exchange differences on translation of foreign joint ventures and associates	(7)	11
At 30 June	**151**	**149**

(i) Included within the share of profits for the year ended 30 June 2010 is £3 million 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 29.

a) Investments in joint ventures

Representing the Group's share of each joint venture:

	2011 £m	2010 £m
Non-current assets	5	6
Current assets	63	46
Current liabilities	(32)	(24)
Non-current liabilities	(7)	(6)
Shareholders' equity	**29**	**22**
Revenue	79	70
Expense	(59)	(51)
Taxation	(4)	(4)
Share of profit from joint ventures	**16**	**15**

b) Investments in associates

Representing a 100% share of each associate:

	2011 £m	2010 £m
Total assets	257	233
Total liabilities	(66)	(60)
Shareholders' equity	**191**	**173**
Revenue[(i)]	257	214
Profit[(i)]	85	64

(i) Revenue and profit numbers are provided for the full year ended 30 June 2011 and 30 June 2010.

17. Available-for-sale investments

	2011 £m	2010 £m
Investment in ITV at cost	946	946
Impairment of ITV investment	(807)	(807)
Realised gain on ITV investment	115	115
Part disposal of ITV investment	(196)	(196)
Unrealised gain on ITV investment	157	98
Fair value of ITV investment	**215**	**156**
Other investments at cost	–	26
	215	**182**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

17. Available-for-sale investments *continued*

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 48.5 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 the shares in ITV.

The disposal was 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.

On 5 April 2011, the Group sold its available-for-sale investment in Shine. Further details of this transaction are disclosed in note 6.

18. Deferred tax

i) Recognised deferred tax (liabilities) assets

	Accelerated tax depreciation £m	Tax losses £m	Short-term temporary differences £m	Share-based payments temporary differences £m	Financial instruments temporary differences £m	Total £m
At 1 July 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)
(Charge) credit to income	(3)	1	(2)	18	(5)	9
Credit to equity	–	–	–	19	24	43
Acquisition of subsidiaries	22	–	–	–	–	22
Disposal of subsidiary	3	–	2	–	–	5
Effect of change in tax rate						
– Income	–	–	–	(2)	–	(2)
– Equity	–	–	–	(2)	1	(1)
At 30 June 2011	**14**	**1**	**6**	**58**	**(10)**	**69**

Deferred tax assets have been recognised at 30 June 2011 and 30 June 2010 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 substantively enacted for the relevant periods of reversal is 26% as at 30 June 2011 (2010: 28%).

The Finance Act (No.2) 2010, which provides for a reduction in the main rate of UK corporation tax from 28% to 27% effective from 1 April 2011, was substantively enacted on 21 July 2010. The 2011 budget (delivered on 23 March 2011) announced a further reduction of 1% to the UK corporation tax rate, causing the rate to fall to 26% effective from 1 April 2011.

The Government has also indicated that it intends to introduce further reductions in the main tax rate, with the rate falling by 1% each year down to 23% by 1 April 2014. In particular Finance (No.3) Bill 2011 intends to reduce the main tax rate to 25% effective from 1 April 2012. These further reductions to the tax rate, below the 26% rate, have not been substantively enacted at the balance sheet date and are therefore not reflected in these consolidated financial statements.

The impact of the reduction to the main tax rate to 25% on the deferred tax attributes of the Group would be a reduction in the deferred tax asset by £2 million.

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:

	2011 £m	2010 £m
Deferred tax assets	79	31
Deferred tax liabilities	(10)	(38)
	69	**(7)**

ii) Unrecognised deferred tax assets

	2011 £m	2010 £m
Tax losses arising from trading	300	338
Tax losses arising from capital disposals and provisions against investments	366	403
	666	**741**

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 2011, a deferred tax asset of £40 million (2010: £38 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 2011, a deferred tax asset of £260 million (2010: £300 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 £258 million (2010: £249 million) with respect to the Group's German holding company's former investment in KirchPayTV, £2 million (2010: nil) with respect to the recently acquired Cloud subsidiaries and nil (2010: £51 million) with respect to the Group's former holdings in Easynet's overseas subsidiaries. The overseas trading losses can be carried forward indefinitely.

At 30 June 2011, a deferred tax asset of £354 million (2010: £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 2011, the Group also has capital losses with a tax value estimated to be in excess of £12 million (2010: £12 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.

19. Inventories

	2011 £m	2010 £m
Television programme rights	265	255
Set-top boxes and related equipment	98	73
Other inventories	12	15
	375	**343**

At 30 June 2011, 85% (2010: 91%) of the television programme rights and 100% (2010: 100%) of set-top boxes and related equipment and other inventories is expected to be recognised in the income statement within 12 months.

20. Trade and other receivables

	2011 £m	2010 £m
Gross trade receivables	274	303
Less: provision for impairment of receivables	(195)	(153)
Net trade receivables	**79**	**150**
Amounts receivable from joint ventures and associates	7	6
Amounts receivable from other related parties	10	3
Prepayments	239	197
Accrued income	152	135
VAT	17	18
Other	88	29
Current trade and other receivables	**592**	**538**
Non-current prepayments	13	18
Total trade and other receivables	**605**	**556**

Included within current trade and other receivables is nil (2010: nil) 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:

	2011 £m	2010 £m
Up to 30 days past due date	62	50
30 to 60 days past due date	1	6
60 to 120 days past due date	2	5
More than 120 days past due date	2	4
	67	**65**

The Directors consider that the carrying amount of trade and other receivables approximates 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

	2011 £m	2010 £m
Balance at beginning of year	153	118
Amounts utilised	–	(5)
Income statement charge	42	40
Balance at end of year	**195**	**153**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

21. Trade and other payables

	2011 £m	2010 £m
Trade payables[i]	429	419
Amounts owed to joint ventures and associates	5	4
Amounts owed to other related parties	69	70
VAT	145	105
Accruals	654	609
Deferred income	286	251
Other	87	68
Current trade and other payables	**1,675**	**1,526**
Amounts owed to other related parties	5	3
Trade payables	12	7
Deferred income	7	38
Other	2	4
Non-current trade and other payables	**26**	**52**
Total trade and other payables	**1,701**	**1,578**

(i) Included within trade payables are £182 million (2010: £169 million) of US dollar-denominated payables.

The Directors consider that the carrying amount of trade and other payables approximates their fair values. Trade payables principally comprise amounts outstanding for programming purchases and ongoing costs.

22. Provisions

	At 1 July 2009 £m	Provided during the year £m	Utilised during the year £m	At 1 July 2010 £m	Provided during the year £m	Utilised during the year £m	At 30 June 2011 £m
Current liabilities							
Restructuring provision[i]	–	7	–	7	–	(7)	–
Acquired and acquisition related provisions[ii]	14	4	(3)	15	4	(8)	11
Other provisions[iii]	4	2	(1)	5	5	–	10
	18	**13**	**(4)**	**27**	**9**	**(15)**	**21**
Non-current liabilities							
Acquired and acquisition related provisions[ii]	1	–	(1)	–	–	–	–
Other provisions[iv]	11	2	(2)	11	1	(3)	9
	12	**2**	**(3)**	**11**	**1**	**(3)**	**9**

(i) During the year ended 30 June 2010 the Group provided £7 million for the expected costs of a restructuring exercise undertaken.

(ii) These provisions arose on the acquisition of Amstrad which took place during the year ended 30 June 2008. The amounts remaining at 30 June 2011 primarily relate to the settlement of outstanding claims.

(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 amounts provided for onerous contracts for property leases and maintenance. The timing of the cash flows are dependent on the terms of the leases, but are expected to continue up to June 2021.

23. Borrowings

	2011 £m	2010 £m
Current borrowings		
Obligations under finance leases[ii]	8	8
Non-current borrowings		
US$750 million of 5.625% Guaranteed Notes repayable in October 2015[i]	490	533
£400 million of 5.750% Guaranteed Notes repayable in October 2017[i]	406	407
US$750 million of 6.100% Guaranteed Notes repayable in February 2018[i]	476	511
US$582.8 million of 9.500% Guaranteed Notes repayable in November 2018[i]	383	413
£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]	214	229
Obligations under finance leases[ii]	61	62
	2,325	**2,450**

(i) Guaranteed Notes

At 30 June 2011, 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 2011, 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 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**		

* *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 have been issued under the Programme, which allows issuance of up to £1 billion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

23. Borrowings *continued*

(ii) Finance leases

The minimum lease payments under finance leases fall due as follows:

	2011 £m	2010 £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	161	169
	201	**209**
Future finance charges on finance lease liabilities	(132)	(139)
Present value of finance lease liabilities	**69**	**70**

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 (2010: £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 (2010: £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.

(iii) Revolving Credit Facility

The Group has a £750 million 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 2011, the RCF was undrawn (2010: undrawn).

There is an opportunity to request an extension of either one or two further years 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.

(iv) Guarantees

The following guarantees are in place relating to the Group's borrowings: (a) British Sky Broadcasting Limited, Sky Subscribers Services Limited, BSkyB Finance UK plc and Sky In-Home Service Limited 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 and Sky In-Home Service Limited have given joint and several guarantees in relation to the outstanding Guaranteed Notes issued by BSkyB Finance UK plc.

24. 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.

	2011				2010			
	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	95	812	–	–	98	865	–	–
Cash flow hedges								
Cross-currency swaps	133	661	–	–	181	661	–	–
Forward foreign exchange contracts	8	442	(28)	783	77	1,006	(8)	221
Currency options (collars)	4	28	–	28	11	61	–	61
Derivatives not in a formal hedge relationship								
Forward foreign exchange contracts	2	67	–	9	1	10	(2)	49
Cross-currency swaps	44	353	(40)	390	70	353	(16)	390
Embedded derivatives	–	–	–	–	–	–	(1)	4
Total	**286**	**2,363**	**(68)**	**1,210**	**438**	**2,956**	**(27)**	**725**

The maturity of the derivative financial instruments is as follows:

	2011		2010	
	Asset £m	Liability £m	Asset £m	Liability £m
In one year or less	9	(20)	50	(10)
Between one and two years	4	(6)	24	(1)
Between two and five years	87	(2)	15	–
In more than five years	186	(40)	349	(16)
Total	**286**	**(68)**	**438**	**(27)**

Included within the fair value of forward foreign exchange contracts are a number of US dollar-denominated forward foreign exchange contracts which the Group has taken out with counterparty banks on behalf of its joint venture AETN UK. On the same dates as these forward contracts were entered into, the Group entered into equal and opposite forward contracts with AETN UK. As a result, the net fair value of these contracts to the Group was nil (2010: nil). The gross sterling notional value of these forward contracts at 30 June 2011 was £2 million (2010: £1 million).

The fair value of the Group's debt-related derivative portfolio at 30 June 2011 was a £232 million net asset (2010: net asset of £333 million) with net notional principal amounts totalling £1,454 million (2010: £1,454 million). This comprised: net assets of £133 million designated as cash flow hedges (2010: net assets of £181 million), net assets of £95 million designated as fair value hedges (2010: net assets of £98 million) and net assets of £4 million not designated in a formal hedge relationship (2010: net assets of £54 million).

At 30 June 2011, the carrying value of financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss was nil (2010: nil).

Hedge accounting classification and impact

The Group has designated its interest rate swaps as fair value hedges of interest rate risk, representing 37% (2010: 37%) 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 34% (2010: 35%) 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, losses of £54 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 (2010: gains of £78 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 £2 million were removed from the hedging reserve and credited to operating expense in the income statement (2010: gains of £13 million). Gains of £11 million were removed from the hedging reserve and credited to revenue in the income statement (2010: losses of £2 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

24. Derivatives and other financial instruments *continued*

Hedge effectiveness testing is performed quarterly using the dollar-offset approach. The actual movement in the hedging items is compared with the movement in the valuation of the hypothetically perfect hedge of the underlying risk at inception, and any ineffectiveness is recognised directly in the income statement. £3 million of ineffectiveness was recognised in the income statement during the current year (2010: £2 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 2011, there were no instances in which the hedge relationship was not highly effective (2010: 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 2011								
Quoted bond debt	–	–	–	–	–	(2,264)	(2,264)	(2,500)
Derivative financial instruments	–	–	6	212	–	–	218	218
Trade and other payables	–	–	–	–	–	(1,189)	(1,189)	(1,189)
Provisions	–	–	–	–	–	(15)	(15)	(15)
Obligations under finance leases and other borrowings	–	–	–	–	–	(69)	(69)	(69)
Available-for-sale investments	–	215	–	–	–	–	215	215
Trade and other receivables	–	–	–	–	332	–	332	332
Short-term deposits	430	–	–	–	–	–	430	430
Cash and cash equivalents	150	–	–	–	771	–	921	921
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

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 contracts and options 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 2011 and 30 June 2010. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

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, enhanced return investments and tri-party repurchase agreements 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 2011				
Assets measured at fair value				
Available-for-sale financial instruments				
ITV investment	215	215	–	–
Financial assets at fair value through profit or loss				
Interest rate swaps	95	–	95	–
Cross currency swaps	177	–	177	–
Forward foreign exchange and option contracts	14	–	14	–
Total	**501**	**215**	**286**	**–**
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Cross currency swaps	(40)	–	(40)	–
Forward foreign exchange and option contracts	(28)	–	(28)	–
Total	**(68)**	**–**	**(68)**	**–**
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

25. 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 foreign exchange contracts and currency options (collars) to hedge transactional and translational currency exposures.

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 2011, 62% of borrowings were held at fixed rates after hedging (2010: 62%).

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 2011, 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 2011, this amounted to £3 million (2010: £2 million).

At 30 June 2011 and 30 June 2010, 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 is outstanding for the whole year.

For each one hundred basis point rise or fall in interest rates at 30 June 2011, and if all other variables were held constant:

- The Group's profit for the year ended 30 June 2011 would increase or decrease by £6 million (2010: profit for the year would increase or decrease by £3 million). The year on year increase is driven by an increase in the cash balance held.
- Other equity reserves would decrease or increase by £17 million (2010: decrease or increase by £17 million), arising from movements in cash flow hedges.

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 2011, the split of the Group's aggregate borrowings into their core currencies was US dollar 66% and pounds sterling 34% (2010: US dollar 68% and pounds sterling 32%). At 30 June 2011, 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 (£595 million) was denominated in US dollars (2010: approximately 11% (£537 million)) and 6% of revenues was denominated in Euros (2010: 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 (2010: surplus).

The Group hedges currency exposures on US dollar and Euro-denominated highly probable cash flows by using forward foreign 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 2011, the Group had purchased forward foreign exchange contracts and collars representing up to:

- Approximately 90% of US dollar-denominated costs falling due within one year (2010: 85%), and approximately 80% of US dollar-denominated costs falling due within five years (2010: approximately 80%) which are hedged via
    - Outstanding commitments to purchase, in aggregate, US$1,456 million (2010: US$1,310 million) at an average rate of US$1.59 to £1.00 (2010: US$1.58 to £1.00).
    - Collars relating to the purchase of a total of US$45 million (2010: US$91 million) in aggregate.
- Approximately 80% of net Euro-denominated exposures relating to revenues and transponder costs falling due within 18 months (2010: approximately 80%), which are hedged via
    - Outstanding commitments to sell, in aggregate, €405 million (2010: €440 million) at an average rate of €1.16 (2010: €1.13).
    - Outstanding commitments to purchase, in aggregate, €22 million (2010: €58 million) at an average rate of €1.13 (2010: €1.13).
- No forward foreign exchange contracts or collars fall due beyond five years (2010: 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 (2010: less than £1 million).

During the year, the Group exchanged £55 million for US dollars (2010: £19 million) and €7 million was exchanged for pounds sterling (2010: €63 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 analyses details the Group's sensitivity to movements in pounds sterling against those currencies in which it has significant transactions. The sensitivity analysis includes foreign currency denominated assets and liabilities at the balance sheet date and 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 £29 million (2010: reducing profit by £36 million), of which losses of £29 million relate to non-cash movements in the valuation of derivatives (2010: losses of £35 million). The same strengthening would have an adverse impact on other equity of £185 million (2010: adverse impact of £198 million).

A 25% weakening in pounds sterling against the US dollar would have the effect of increasing profit by £48 million (2010: increasing profit by £59 million) of which gains of £48 million relate to non-cash movements in the valuation of derivatives (2010: gains of £58 million). The same weakening would have a beneficial impact on other equity of £309 million (2010: beneficial impact of £330 million).

A 25% strengthening in pounds sterling against the Euro would have the effect of increasing profit by £1 million (2010: 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 £70 million (2010: beneficial impact of £69 million).

A 25% weakening in pounds sterling against the Euro would have the effect of reducing profit by £2 million (2010: 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 £117 million (2010: adverse impact of £115 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

25. Financial risk management *continued*

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, 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.

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 24.

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 14% 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 & Poor's.

The amount recognised in the income statement in respect of credit risk for derivatives deemed held for trading is nil (2010: nil).

Credit risk in our residential customer base is mitigated by billing and collecting in advance for digital television subscriptions for over 99% of our residential customer base. The Group's maximum exposure to credit risk on trade receivables is the carrying amounts as disclosed in note 20.

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 an extension of either one or two further years. At 30 June 2011, this facility was undrawn (30 June 2010: 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 2011, 59% (2010: 76%) of the Group's total available funding (including available undrawn amounts on our RCF) was due to mature in more than five years.

Full details of the Group's borrowings and undrawn facilities are shown in note 23, other than trade and other payables, shown in note 21, and provisions, shown in note 22.

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, provisions 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 2011				
Non derivative financial liabilities				
Bonds – USD	104	104	766	1,470
Bonds – GBP	41	41	123	933
Obligations under finance leases and other borrowings	8	8	24	161
Trade and other payables	1,111	72	6	–
Provisions	8	6	2	2
Net settled derivatives				
Financial assets	(33)	(33)	(94)	(48)
Gross settled derivatives				
Outflow	885	417	824	1,313
Inflow	(871)	(410)	(856)	(1,427)

	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)
Gross settled derivatives				
Outflow	819	414	424	1,805
Inflow	(865)	(443)	(456)	(2,100)

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 2011, the Net Debt: EBITDA ratio as defined by the terms of the RCF was 0.6:1 (2010: 0.9:1).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

26. Share capital

	2011 £m	2010 £m
Allotted, called-up and fully paid shares of 50p		
1,752,842,599 (2010: 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:

	2011 Number of ordinary shares	2010 Number of ordinary shares
Executive Share Option Scheme options[(i)]	5,583,424	13,803,846
Sharesave Scheme options[(ii)]	6,554,165	6,175,446
All Employee awards[(iii)]	1,168,200	1,383,400
Management LTIP awards[(iv)]	22,326,138	13,447,526
LTIP awards[(v)]	8,610,930	5,869,560
Management Co-Investment LTIP awards[(vi)]	1,268,260	599,181
Co-Investment LTIP awards[(vii)]	1,286,906	728,736
	46,798,023	**42,007,695**

(i) Executive Share Option Scheme options

All Executive Share Option Scheme options outstanding at 30 June 2011 and 30 June 2010 have vested. No options have been granted under the scheme since 2004.

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 vested on an accelerated basis over a period of up to four years from the date of grant. The contractual life of all Executive Share Option Scheme options is ten years.

(ii) Sharesave Scheme options

All Sharesave Scheme options outstanding at 30 June 2011 and 30 June 2010 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 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 end of year results.

(iii) All Employee awards (20 Year Award Plan)

The All Employee awards outstanding at 30 June 2011 and 30 June 2010 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.

(iv) Management LTIP awards

All Management LTIP awards outstanding at 30 June 2011 and 30 June 2010 vest only if performance conditions are met. Awards granted under the Management LTIP must be exercised within five years 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 2011 and 30 June 2010 vest only if performance conditions are met. Awards granted under the LTIP must be exercised within five years 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. For awards made in 2008 and 2009 (i.e. awards which will vest in 2011), 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. The TSR performance targets are not applicable to awards made since July 2010.

(vi) Management Co-Investment LTIP awards

All Management Co-Investment LTIP awards outstanding at 30 June 2011 and 30 June 2010 vest only if performance conditions are met. Awards granted under the Management Co-Investment LTIP must be exercised within five years 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 2011 and 30 June 2010 vest only if performance conditions are met. Awards granted under the Co-Investment LTIP must be exercised within five years 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, Management Co-Investment LTIP and Co-Investment LTIP awards ("Senior Management Schemes") have been aggregated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

26. Share capital *continued*

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 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
Granted during the year	–	–	2,257,055	5.65	14,317,471	0.00	16,574,526	0.77
Exercised during the year	(4,287,534)	6.39	(1,094,690)	4.40	(315,398)	0.00	(5,697,622)	5.65
Forfeited during the year	(383,704)	7.35	(910,357)	4.11	(814,229)	0.00	(2,108,290)	3.12
Expired during the year	(3,549,184)	9.95	(88,489)	4.35	(340,613)	0.00	(3,978,286)	8.98
Outstanding at 30 June 2011	**5,583,424**	**6.65**	**7,722,365**	**3.88**	**33,492,234**	**0.00**	**46,798,023**	**1.43**

The weighted average market price of the Group's shares at the date of exercise for share options exercised during the year was £7.85 (2010: £5.50). For those exercised under the Executive Scheme it was £7.99 (2010: £6.27), for those exercised under the Sharesave Schemes it was £7.54 (2010: £5.53), and for those exercised under the Senior Management Schemes it was £7.08 (2010: £5.37).

The middle-market closing price of the Company's shares at 1 July 2011 was £8.49 (25 June 2010: £7.01).

The following table summarises information about share awards outstanding at 30 June 2011:

	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	–	–	1,168,200	0.6	33,492,234	1.9	34,660,434	1.9
£3.00 – £4.00	–	–	2,348,795	1.5	–	–	2,348,795	1.5
£4.00 – £5.00	–	–	1,926,019	2.4	–	–	1,926,019	2.4
£5.00 – £6.00	1,802,435	2.5	2,279,351	3.8	–	–	4,081,786	3.2
£6.00 – £7.00	1,537,964	2.1	–	–	–	–	1,537,964	2.1
£7.00 – £8.00	2,243,025	0.3	–	–	–	–	2,243,025	0.3
	5,583,424	**1.5**	**7,722,365**	**2.3**	**33,492,234**	**1.9**	**46,798,023**	**2.0**

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**

The range of exercise prices of the awards outstanding at 30 June 2011 was between nil and £7.94 (2010: nil and £12.88). For those awards outstanding under the Executive Scheme it was between £5.03 and £7.94 (2010: £5.03 and £12.88); for those outstanding under the Sharesave Schemes it was between nil and £5.65 (2010: nil and £5.38) and for all awards outstanding under the Senior Management Schemes the exercise price was nil (2010: nil).

The following table summarises additional information about the awards exercisable at 30 June 2011 and 30 June 2010:

	2011			2010		
	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	5,583,424	1.5	6.65	13,803,846	2.1	7.44
Sharesave Schemes	72,812	0.1	5.24	204,427	0.1	4.35
Senior Management Schemes	–	–	–	656,011	0.1	–
	5,656,236	**1.5**	**6.64**	**14,664,284**	**2.0**	**7.06**

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 £5.95 (2010: £4.19). This was calculated using the Black-Scholes share option pricing model except 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.

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 £1.91 (2010: £1.65). This was calculated using the Black-Scholes share option pricing model.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

26. Share capital *continued*

The following weighted average assumptions were used in calculating these fair values:

	2011	2010
Share price	£7.09	£5.73
Exercise price	£5.65	£4.33
Expected volatility	28.1%	28.3%
Expected life	4.6 years	4.1 years
Expected dividends	2.7%	3.1%
Risk-free interest rate	1.5%	2.3%

(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 £6.59 (2010: £4.80). The fair value of 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. In the prior year, awards with market-based performance conditions were granted and the fair value of these awards was calculated using a Monte-Carlo simulation model.

The following weighted average assumptions were used in calculating these fair values:

	2011	2010
Share price	£7.11	£5.47
Exercise price	£0.00	£0.00
Expected volatility	–	34.8%
Expected life	3.0 years	2.1 years
Expected dividends	2.5%	3.2%
Risk-free interest rate	–	2.1%

27. Shareholders' equity

	2011 £m	2010 £m
Share capital	876	876
Share premium	1,437	1,437
ESOP reserve	(107)	(47)
Hedging reserve	14	77
Available-for-sale reserve	157	98
Other reserves	358	362
Retained earnings	(1,700)	(2,243)
	1,035	**560**

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, which is included in other reserves, 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 (2010: £222 million). The merger reserve was created as a result of the purchase by the Group of interests in two entities. SIG was purchased on 12 July 2000, where consideration was paid by the issue of equity shares in the Group. 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 buy-back shares expired on 3 November 2006. During the year ended 30 June 2007, the Company 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	–	–
September	2,250,000	£7.18
October	–	–
November	–	–
December	–	–
January	–	–
February	–	–
March	–	–
April	–	–
May	7,764,887	£8.48
June	1,000,000	£8.46
Total for the year ended 30 June 2011	**11,014,887**	**£8.21**

(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 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**
Share options exercised during the year	(5,697,622)	£5.37	(30)
Shares purchased by the ESOP during the year	11,014,887	£8.21	90
At 30 June 2011	**13,832,609**	**£7.75**	**107**

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 2011, the Group's available-for-sale reserve was £157 million (2010: £98 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

27. Shareholders' equity *continued*

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 2011 (2010: £95 million). The merger reserve was £222 million as at 30 June 2011 (2010: £222 million). The special reserve was £14 million as at 30 June 2011 (2010: £14 million). The foreign currency translation reserve was £27 million as at 30 June 2011 (2010: £31 million).

28. Notes to the Consolidated Cash Flow Statement

Reconciliation of profit before taxation from continuing operations to cash generated from continuing operations

	2011 £m	2010 £m
Profit before taxation	**1,014**	**1,190**
Depreciation and impairment of property, plant and equipment	173	154
Amortisation and impairment of intangible assets	159	184
Profit on disposal of available-for-sale investment	(9)	(115)
Share-based payment expense	69	35
Net finance costs	102	70
Share of results of joint ventures and associates	(34)	(32)
	1,474	**1,486**
(Increase) decrease in trade and other receivables	(59)	62
Decrease in inventories	6	43
Increase in trade and other payables	158	31
(Decrease) increase in provisions	(8)	7
Decrease in derivative financial instruments	(2)	(3)
Cash generated from continuing operations	**1,569**	**1,626**

29. Contracted commitments, contingencies and guarantees

a) Future minimum expenditure contracted for but not recognised in the financial statements

	Year ending 30 June 2012 £m	Year ending 30 June 2013 £m	Year ending 30 June 2014 £m	Year ending 30 June 2015 £m	Year ending 30 June 2016 £m	After 5 years £m	Total at 30 June 2011 £m	Total at 30 June 2010 £m
Television programme rights[(i)]	1,102	1,003	370	269	83	95	2,922	3,259
Set-top boxes and related equipment	282	–	–	–	–	–	282	266
Third party payments[(ii)]	37	34	2	–	–	–	73	134
Transponder capacity[(iii)]	92	92	81	84	81	408	838	751
Property, plant and equipment	47	–	–	–	–	–	47	41
Intangible assets	27	20	18	18	18	41	142	142
Smartcards[(iv)]	49	49	50	50	50	112	360	408
Other	128	47	20	14	9	9	227	197
	1,764	**1,245**	**541**	**435**	**241**	**665**	**4,891**	**5,198**

Foreign currency commitments are translated to pounds sterling at the rate prevailing on the balance sheet date.

(i) *At 30 June 2011, the Group had minimum television programming rights commitments of £2,922 million (2010: £3,259 million), of which £344 million (2010: £412 million) related to commitments payable in US dollars for periods of up to seven years (2010: eight years).*

Assuming that movie subscriber numbers remain unchanged from current levels, an additional £455 million (US$735 million) of commitments (2010: £545 million (US$886 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 £18 million (2010: £24 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 five years (2010: four 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 £525 million (2010: £521 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 fourteen years (2010: fifteen years).*

(iv) *In December 2008, the Group entered into a new contractual agreement with NDS, a related party, for the provision of smartcards.*

b) Contingencies and guarantees

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 £38 million (2010: £8 million).

The Group has guarantees in place relating to the Group's borrowings, see note 23.

30. Operating lease commitments

The minimum lease rentals to be paid under non-cancellable operating leases at 30 June are as follows:

	2011 £m	2010 £m
Within one year	45	51
Between one and two years	33	38
Between two and three years	24	29
Between three and four years	17	21
Between four and five years	14	16
After five years	54	61
	187	**216**

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:

	2011 £m	2010 £m
Within one year	5	3
Between one and two years	5	3
Between two and three years	3	2
Between three and four years	2	1
Between four and five years	2	–
After five years	8	–
	25	**9**

Sub-lease rentals primarily relate to property leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

31. Acquisition of subsidiaries

Living TV Group

On 12 July 2010, the Group completed the purchase of 100% of the share capital of Virgin Media Television Limited, Virgin Media Television Rights Limited, and the assets and liabilities of the Virgin Media television channels, subsequently renamed the Living TV Group ("Living TV"). Living TV operates a portfolio of television channels including Living (renamed Sky Living) 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. Living TV was acquired to complement the Group's existing content business and to deliver strategic and financial benefits.

Total consideration comprised £160 million cash after adjustments which included a working capital adjustment.

	Net book value £m	Fair value adjustments £m	Recognised values £m
Recognised amounts of identifiable assets acquired and liabilities assumed			
Intangible assets	–	80	80
Property, plant and equipment	1	–	1
Trade and other receivables	36	–	36
Inventory	88	(48)	40
Deferred tax asset	–	24	24
Trade and other payables	(93)	(7)	(100)
	32	**49**	**81**
Goodwill			79
Total consideration			**160**
Satisfied by:			
Cash			**160**

The fair value of the financial assets includes trade receivables with a fair value of £10 million and a gross contractual value of £11 million. The best estimate at the acquisition date of the contractual cash flows not likely to be collected was £1 million.

Goodwill of £79 million arising from the acquisition is attributable to the anticipated profitability arising from the Group's access to additional viewer demographics, breadth of content and channel slots and the anticipated future operating synergies from the combination. All of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition-related costs included in administration costs in the Group's consolidated income statement, for the year ended 30 June 2011, amounted to £26 million (2010: nil) and comprise principally redundancy payments and the early termination of a pre-acquisition contract.

For the period between the date of purchase and 30 June 2011, Living TV contributed £107 million to the Group's revenue, and £25 million to the Group's profit before tax. Had the Group completed the purchase of Living TV on the first day of the financial year, Group revenue and Group profit for the year would not have been materially different from the reported results.

The Cloud

On 23 February 2011, the Group completed the purchase of 100% of the share capital of The Cloud Networks Limited ("The Cloud"), a public Wi-Fi network operator. The acquisition is intended to support the Group's mobile content activities and complement its existing broadband services.

Total consideration of £48 million comprised £43 million of cash and a contingent consideration arrangement of £5 million.

	Net book value £m	Fair value adjustments £m	Recognised values £m
Recognised amounts of identifiable assets acquired and liabilities assumed			
Intangible assets	–	9	9
Property, plant and equipment	3	–	3
Trade and other receivables	5	–	5
Cash and cash equivalents	2	–	2
Trade and other payables	(7)	–	(7)
Deferred tax liability	–	(2)	(2)
	3	**7**	**10**
Goodwill			38
Total consideration			**48**
Satisfied by:			
Cash			43
Contingent consideration arrangement			5
Net cash outflow arising on the purchase of The Cloud			
Cash paid			43
Cash and cash equivalents acquired			(2)
			41

All amounts in the above table are provisional.

The fair value of the financial assets includes trade receivables with a fair value and gross contractual value of £5 million. The best estimate at the acquisition date of the contractual cash flows not likely to be collected was less than £1 million.

Goodwill of £38 million arising from the acquisition is attributable to future operating synergies from integrating the services within the Group's broadband business. None of the goodwill recognised is expected to be deductible for income tax purposes.

The contingent consideration arrangement requires The Cloud to achieve certain financial targets within a prescribed timeframe during the next financial year. The final amount of consideration paid will be dependent on the extent to which The Cloud achieves these targets. 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 £5 million. £5 million has been recognised as the fair value of this arrangement at the acquisition date.

Acquisition-related costs included in administration costs in the Group's consolidated income statement, for the year ended 30 June 2011, amounted to £3 million and comprise principally legal and banking fees.

For the period between the date of purchase and 30 June 2011, The Cloud contributed £7 million to the Group's revenue, and a loss of £1 million to the Group's profit before tax. Had the Group completed the purchase of The Cloud on the first day of the financial year, it is estimated that The Cloud would have contributed £18 million to Group revenue and a loss of £2 million to the Group's profit for the year.

Other acquisitions

During the year, the Group also purchased the trade and assets of a marketing database services business belonging to Experian plc which resulted in additional goodwill of £5 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

32. 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:

	2011 £m	2010 £m
Supply of services by the Group	49	32
Purchases of goods or services by the Group	(216)	(197)
Amounts owed by News Corporation to the Group	10	3
Amounts owed to News Corporation by the Group	(69)	(70)

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.

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 5 April 2011, the Group sold its investment in Shine to News Corporation for a maximum consideration of £36 million, of which £31 million has been received to date (see note 6).

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").

News Corporation confirmed that the Proposal did not amount to a firm intention to make an offer under Rule 2.5 of the Takeover Code and there was no obligation on News Corporation to make such an offer and therefore that it could withdraw the Proposal at its sole discretion at any time. At the time of the Proposal the Company and News Corporation entered into an agreement which provided, amongst other matters, that if News Corporation announced prior to obtaining merger clearance that it did not intend to make a firm offer, then News Corporation would pay the Company a fee of £38.5 million, representing 0.5% of the value of the Proposal (the "Break Fee").

On 13 July 2011, prior to obtaining merger clearance, News Corporation announced that it no longer intended to make an offer for the entire issued share capital of the Company that it did not already own (the "Proposal Withdrawal"). The Break Fee has now been paid. Costs of £15 million were incurred during the year in relation to the Proposal.

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.

	2011 £m	2010 £m
Supply of services by the Group	23	13
Purchases of goods or services by the Group	(57)	(55)
Amounts owed by joint ventures and associates to the Group	26	26
Amounts owed to joint ventures and associates by the Group	(5)	(4)

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 £19 million (2010: £20 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 (2010: £20 million).

The Group took out a number of forward exchange contracts with counterparty banks during the year on behalf of the joint venture AETN UK. On the same dates as these forward contracts were entered into, the Group entered into equal and opposite contracts with AETN UK in respect of these forward contracts.

Consequently, 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 2011 was £2 million (2010: £1 million).

During the year, US$4 million (2010: US$3 million) was paid to the joint ventures upon maturity of forward exchange contracts and less than US$1 million (2010: US$2 million) was received from joint ventures upon maturity of forward exchange contracts.

During the year, £3 million (2010: £2 million) was received from the joint ventures upon maturity of forward exchange contracts, and less than £1 million (2010: £2 million) was paid to the joint ventures upon maturity of forward exchange contracts.

During the year, €1 million (2010: nil) was received from 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 had a controlling interest in Shine in which the Group also had an equity shareholding, until Shine was acquired by News Corporation on 5 April 2011 (see note 6). Shine continues to be a related party of the Group and transactions with Shine are included within the balances disclosed in note 32a.

A close family member of one Director of the Company runs Freud Entertainment Limited ("Freud"), which has provided external support to the press and publicity activities of the Group. During the year the Group incurred expenditure amounting to £2 million (2010: £1 million) with Freud. At 30 June 2011 there was £1 million (2010: nil) due to Freud.

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. These do not meet the definition of Related Party Transactions.

d) Key management

The Group has a related party relationship with the Directors of the Group. At 30 June 2011, there were 14 (2010: 14) members of key management all of whom were Directors of the Company. Key management compensation is disclosed in note 8b.

33. Events after the reporting period

On 13 July 2011, News Corporation announced that it no longer intended to make an offer for the entire issued and to be issued share capital of the Company not already owned by News Corporation. A break fee of £38.5 million has now been received and will exceed all of the Group's direct costs associated with the Proposal. For further details see note 32.

On 28 July 2011, the Board agreed to seek the necessary approvals to return £750 million of capital to shareholders via a share buy-back programme. Shareholder approvals will be sought at the Company's AGM on 29 November 2011. The Company has entered into an agreement with News Corporation under which, following any market purchases of shares by the Company, News Corporation will sell to the Company sufficient shares to maintain its percentage shareholding at the same level as applied prior to those market purchases. The price payable to News Corporation will be the price payable by the Company in respect of the relevant market purchases. The agreement is conditional on the appropriate shareholder approvals being granted. The effect of the agreement is to provide that there will be no change in News Corporation's economic or voting interests in the Company as a result of the share buy-back programme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

34. 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%)	Operation of pay television broadcasting and home communications services in the UK and Ireland
British Interactive Broadcasting Holdings Limited	England and Wales	651,960 ordinary shares of £1 each (100%)	Parent of a company providing the transmission of interactive services
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
Sky Interactive Limited	England and Wales	659,000,003 ordinary shares of £1 each (100%)	The provision of interactive television services
BSkyB LLU Assets Limited	England and Wales	121,309,090 ordinary shares of £0.04 each (100%)	Parent of companies managing the network assets in the UK
Sky Ventures Limited	England and Wales	912 ordinary shares of £1 each (100%)	Holding company
365 Media Group Limited	England and Wales	172 ordinary shares of £0.01 each (100%)	Production and sale of sports content for internet, text, radio and mobile
Living TV Group Holdings Limited	England and Wales	2 ordinary shares of £1 each (100%)	The transmission of general entertainment programming
Sky IQ Limited	England and Wales	100 ordinary shares of £1 each (100%)	Provision of data base activities
The Cloud Networks Limited	England and Wales	30,583,988 shares of £0.00025 per share (100%)	Provision of telecommunications
Joint ventures and associates:			
Nickelodeon UK Limited[(i)]	England and Wales	104 B Shares of £0.01 each (40%)	The transmission of children's television channels
AETN UK	England and Wales	50,000 A Shares of £1 each (50%)	The transmission of history, biography, crime and investigation television programming
Paramount UK Partnership[(i)(ii)]	England and Wales	Partnership interest (25%)	The transmission of general entertainment comedy channels
Australian News Channel Pty Limited	Australia	1 ordinary share of AUD$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[(i)]	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
Sky News Arabia	United Arab Emirates	6,666,666 shares of US$1 each (50%)	The transmission of Arabic News in the MENA region (Middle East and North Africa)
Investments:			
ITV[(i)]	England and Wales	291,684,730 ordinary shares of £0.10 each (7.499999965%)	The transmission of free-to-air channels

Notes:

(i) *These entities have an accounting reference date of 31 December.*

(ii) *The registered address of Paramount UK Partnership is 180 Oxford Street, London, W1D 1DS. The Paramount UK Partnership is a joint venture of the Group and is included within the consolidated accounts in accordance with Note 1(c)(ii). Consequently, the Paramount UK Partnership has taken advantage of the exemption within the Partnerships (Accounts) Regulations 2008 (regulation 7) from filing annual financial statements.*

(iii) *This note sets out an abbreviated list of the subsidiaries of the Company. A full list had been filed with Companies House in accordance with section 410 of the Companies Act 2006.*

35. British Sky Broadcasting Group plc Company only financial statements

Company Income Statement for the year ended 30 June 2011

	Notes	2011 £m	2010 £m
Revenue		**192**	**170**
Operating expense		(28)	(16)
Operating profit		**164**	**154**
Dividend income from subsidiaries	O	3,445	–
Investment income	B	63	76
Finance costs	B	(65)	(71)
Impairment of investment	E	(1,829)	(56)
Profit before tax	C	**1,778**	**103**
Taxation	D	(38)	(44)
Profit for the year attributable to equity shareholders		**1,740**	**59**

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

Company Statement of Comprehensive Income for the year ended 30 June 2011

	2011 £m	2010 £m
Profit for the year attributable to equity shareholders	**1,740**	**59**
Other comprehensive income		
Amounts recognised directly in equity		
(Loss) gain on cash flow hedges	(23)	38
Tax on cash flow hedges	6	(11)
	(17)	27
Amounts reclassified and reported in the income statement		
Gain (loss) on cash flow hedges	27	(35)
Tax on cash flow hedges	(7)	10
	20	(25)
Other comprehensive income for the year (net of tax)	**3**	**2**
Total comprehensive income for the year attributable to equity shareholders	**1,743**	**61**

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

35. British Sky Broadcasting Group plc Company only financial statements *continued*

Company Balance Sheet as at 30 June 2011

	Notes	2011 £m	2010 £m
Non-current assets			
Investments in subsidiaries	E	8,056	4,722
Other receivables	G	6	8
Derivative financial assets	J	272	349
		8,334	5,079
Current assets			
Other receivables	G	1,406	3,432
Cash and cash equivalents		4	–
		1,410	3,432
Total assets		**9,744**	**8,511**
Current liabilities			
Other payables	I	2,256	2,340
Non-current liabilities			
Borrowings	H	1,154	1,219
Derivative financial liabilities	J	181	203
Deferred tax liabilities	F	3	–
		1,338	1,422
Total liabilities		**3,594**	**3,762**
Share capital		876	876
Share premium		1,437	1,437
Reserves		3,837	2,436
Total equity attributable to equity shareholders		**6,150**	**4,749**
Total liabilities and shareholders' equity		**9,744**	**8,511**

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 2011 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 2011

	Notes	2011 £m	2010 £m
Cash flows from operating activities			
Cash generated from operations	M	–	–
Net cash from operating activities		**–**	**–**
Cash flows from financing activities			
Proceeds from the exercise of share options		32	47
Loan to subsidiaries		(28)	(47)
Net cash used in financing activities		**4**	**–**
Net increase in cash and cash equivalents		**4**	**–**
Cash and cash equivalents at the beginning of the year		–	–
Cash and cash equivalents at the end of the year		**4**	**–**

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

Company Statement of Changes in Equity for the year ended 30 June 2011

	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 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**
Profit for the year	–	–	–	–	–	–	–	1,740	1,740
Recognition and transfer of cash flow hedges	–	–	–	–	–	–	4	–	4
Tax on items taken directly to equity	–	–	–	–	–	–	(1)	–	(1)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**3**	**1,740**	**1,743**
Share-based payment	–	–	–	–	–	(60)	–	71	11
Dividends	–	–	–	–	–	–	–	(353)	(353)
At 30 June 2011	**876**	**1,437**	**14**	**95**	**844**	**(107)**	**3**	**2,988**	**6,150**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

35. 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) Basis of preparation

The Company financial statements have been prepared in accordance with IFRS, consistent 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 source of revenue is from licensing the Company's brand name asset to subsidiaries. This revenue is recognised on an accruals basis under the terms of relevant licensing agreements.

iii) 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.

B. Investment income and finance costs

	2011 £m	2010 £m
Investment income		
Investment income from subsidiaries	63	76

	2011 £m	2010 £m
Finance costs		
– Interest payable and similar charges		
Revolving Credit Facility ("RCF")	(6)	(11)
Guaranteed Notes (see note H)	(68)	(69)
	(74)	**(80)**
– Other finance income (expense)		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	8	9
(Loss) gain arising on derivatives in a designated fair value hedge accounting relationship	(1)	26
Gain (loss) arising on adjustment for hedged item in a designated fair value hedge accounting relationship	2	(26)
	9	9
	(65)	**(71)**

C. Profit before taxation

Employee benefits

The Company had no employees (2010: nil) during the year.

Key management compensation

Amounts paid to the Directors of the Company are disclosed in the Report on Directors' remuneration on pages 49-58.

D. Taxation

i) Taxation recognised in the income statement

	2011 £m	2010 £m
Current tax expense		
Current year	43	44
Adjustment in respect of prior years	(7)	–
Total current tax charge	**36**	**44**
Deferred tax expense		
Origination and reversal of temporary differences	2	–
Total deferred tax charge	**2**	**–**
Taxation	**38**	**44**

ii) Deferred tax recognised directly in equity

	2011 £m	2010 £m
Deferred tax charge on hedging activities	1	1

iii) Reconciliation of effective tax rate

The tax expense for the year is lower (2010: higher) than the expense that would have been charged using the standard rate of corporation tax in the UK (27.5%) applied to profit before tax. The applicable enacted or substantively enacted effective rate of UK corporation tax for the year was 27.5% (2010: 28%). The differences are explained below:

	2011 £m	2010 £m
Profit before tax	1,778	103
Profit before tax multiplied by standard rate of corporation tax in the UK of 27.5% (2010: 28%)	489	29
Effects of:		
Non-taxable income	(947)	–
Non-deductible expenditure	503	15
Over provision in respect of prior years	(7)	–
Taxation	**38**	**44**

All taxation relates to UK corporation tax.

E. Investments in subsidiaries

	£m
Cost	
At 1 July 2009	5,743
Additions	40
Impairment	(56)
At 30 June 2010	**5,727**
Additions	5,163
Impairment	(1,829)
At 30 June 2011	**9,061**
Provision	
At 1 July 2009, 30 June 2010 and 30 June 2011	1,005
Carrying amounts	
At 1 July 2009	4,738
At 30 June 2010	4,722
At 30 June 2011	**8,056**

During the year, the Company purchased the assets and liabilities of BSkyB Investments Limited which included its investment of £5,150 million in British Sky Broadcasting Limited. The Company now holds 100% of the share capital of British Sky Broadcasting Limited. Following this purchase, BSkyB Investments Limited was put into liquidation. The Company recognised an impairment of £1,805 million for its investment in BSkyB Investments Limited.

See note 34 for a list of significant investments of the Company.

F. Deferred tax

Recognised deferred tax (liabilities) assets

	Financial instruments temporary differences £m
At 1 July 2009	1
Charge to equity	(1)
At 30 June 2010	**–**
Charge to income	(2)
Charge to equity	(1)
At 30 June 2011	**(3)**

At 30 June 2011, a deferred tax asset of £324 million (2010: £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 2011, the Company has also not recognised a deferred tax asset of £1 million (2010: £1 million) relating to provisions in respect of football club investments, on the basis that it is not probable that they will be utilised.

G. Other receivables

	2011 £m	2010 £m
Amounts receivable from subsidiaries	1,406	3,430
Accrued income	–	2
Current other receivables	**1,406**	**3,432**
Non-current prepayment	6	8
Total other receivables	**1,412**	**3,440**

During the year, the Company purchased the assets and liabilities of BSkyB Investments Limited and on the same date agreed to cancel the outstanding intercompany loans to BSkyB Investments Limited as consideration for the purchase. These loans accrued interest at 1 month LIBOR plus 0.75%.

On 5 March 2009, the Company made a loan of £694 million to British Sky Broadcasting Limited which is repayable on demand and bears interest at a rate of 6 month LIBOR. In October 2009, the Company assigned £604 million of this loan to settle payables with BSkyB Finance Limited.

On 13 January 2009, the Company made a loan of £252 million to British Sky Broadcasting Limited. This loan bears interest at a rate of 6 month LIBOR plus 1.00% and is 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%.

On 24 November 2008, the Company issued US$600 million Guranteed Notes with a coupon rate of 9.5% and loaned the 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 the following loan agreements with British Sky Broadcasting 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%. In June 2011, this loan and the accrued interest was paid in full.

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 £40 million. Amounts loaned under this facility bear interest at a rate of 1 month LIBOR plus 0.75% and is repayable on demand.

On 15 February 2008, the Company issued US$750 million Guaranteed Notes with a coupon rate of 6.100% and loaned the proceeds to British Sky Broadcasting Limited. British Sky Broadcasting Limited pays the same annual effective interest rate to the Company.

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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

35. British Sky Broadcasting Group plc Company only financial statements *continued*

H. Borrowings

	2011 £m	2010 £m
Non-current borrowings		
US$750 million of 6.100% Guaranteed Notes repayable in February 2018	476	511
US$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	383	413
£300 million of 6.000% Guaranteed Notes repayable in May 2027	295	295
	1,154	**1,219**

See note 23 for details of the Company's Guaranteed Notes and RCF and note 25 for details of Capital Risk Management.

I. Other payables

	2011 £m	2010 £m
Other payables		
Amounts owed to subsidiary undertakings	2,238	2,321
Accruals	18	19
	2,256	**2,340**

Amounts payable to subsidiaries are non-interest bearing and repayable on demand. The balance comprises £725 million of non-interest bearing loans (2010: £1,216 million) and £1,513 million of other payables (2010: £1,105 million). The Directors consider that the carrying amount of other payables approximates their fair values.

J. Derivatives and other financial instruments

Fair values

Set out below is a comparison of the carrying values and the estimated fair values of the Company's financial assets and financial liabilities at 30 June 2011 and 30 June 2010:

	2011 Carrying value £m	2011 Fair value £m	2010 Carrying value £m	2010 Fair value £m
Financial assets and liabilities held or issued to finance the Company's operations				
Quoted bond debt	(1,154)	(1,317)	(1,219)	(1,382)
Derivative financial instruments	91	91	146	146
Other payables and receivables	(850)	(850)	1,092	1,092

The fair values of financial assets and financial liabilities are determined as detailed in note 24 and all items held at fair value are classified as Level 2 in the fair value hierarchy.

Set out below are the derivative financial instruments entered into by the Company to manage its interest rate and foreign exchange risk.

	2011				2010			
	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	46	481	–	–	47	514	–	–
Cash flow hedges								
Cross-currency swaps	65	290	–	–	87	290	–	–
Derivatives not in a formal hedge relationship								
Interest rate swaps	49	331	(49)	331	51	351	(51)	351
Cross-currency swaps	112	724	(132)	1,017	164	724	(152)	1,018
Total	**272**	**1,826**	**(181)**	**1,348**	**349**	**1,879**	**(203)**	**1,369**

Note 24 provides further details of the Group's derivative and other financial instruments.

The maturity of the derivative financial instruments is shown below:

	2011		2010	
	Asset £m	Liability £m	Asset £m	Liability £m
Between two and five years	86	(86)	–	–
In more than five years	186	(95)	349	(203)
Total	**272**	**(181)**	**349**	**(203)**

K. 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 intercompany 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 £27 million (2010: 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 £15 million (2010: adverse impact of £17 million).

A 25% weakening in pounds sterling against the US dollar would have a beneficial impact on profit of £45 million (2010: beneficial impact of £55 million), relating to non-cash movements in the valuation of derivatives. The same weakening would have a beneficial impact on other equity of £25 million (2010: beneficial impact of £28 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 2011, and if all other variables were held constant, the Company's profit for the year ended 30 June 2011 would decrease or increase by £3 million (2010: decrease or increase by £5 million) and other equity reserves would decrease or increase by £5 million (2010: decrease or increase by £6 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

35. British Sky Broadcasting Group plc Company only financial statements *continued*

K. Financial risk management *continued*

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 25 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 2011				
Non-derivative financial liabilities				
Bonds – USD	63	63	189	976
Bonds – GBP	18	18	54	498
Other payables	2,256	–	–	–
Net settled derivatives				
Financial assets	(18)	(18)	(56)	(44)
Gross settled derivatives				
Outflow	49	49	146	887
Inflow	(45)	(45)	(134)	(931)

	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	2,340	–	–	–
Net settled derivatives				
Financial assets	(19)	(19)	(57)	(65)
Gross settled derivatives				
Outflow	48	48	143	933
Inflow	(48)	(48)	(145)	(1,046)

At 30 June 2011, the Company had an undrawn £750 million RCF with a maturity date of 30 July 2013. See note 23 for further information.

L. Notes to the Company statement of changes in equity

For details of share capital, share premium, the special reserve, the capital redemption reserve and the hedging reserve see notes 26 and 27.

For details of dividends, see note 12.

Capital reserve

This reserve arose from the surplus on the transfer of trade and assets to a subsidiary undertaking.

M. Reconciliation of profit before taxation to cash generated from operations

	2011 £m	2010 £m
Profit before taxation	**1,778**	**103**
Dividend income	(3,445)	–
Impairment of investment	1,829	56
Net finance costs (income)	2	(5)
Decrease (increase) in other receivables	2,039	(974)
(Decrease) increase in other payables	(2,203)	820
Cash generated from operations	**–**	**–**

N. 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 British Sky Broadcasting 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 British Sky Broadcasting Limited under the contracts and all liabilities now or in the future arising or incurred under the indemnity given to the PL by British Sky Broadcasting Limited under the contracts.

The Company has provided a parent 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 parent 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 23.

O. Transactions with related parties and major shareholders

	2011 £m	2010 £m
Supply of services to subsidiaries	192	162
Interest received from funding to subsidiaries	63	76
Amounts owed by subsidiaries	1,406	3,432
Amounts owed to subsidiaries	(2,238)	(2,321)

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 £66 million (2010: £87 million) on behalf of the Company, during the year. Interest is earned on certain loans to subsidiaries.

The Company recognised £192 million (2010: £162 million) for licensing the Sky brand name to subsidiaries.

The Company recognised dividends during the year from subsidiaries totalling £3,445 million (2010: less than £1 million) primarily due to the liquidation of BSkyB Investments Limited.

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. On 13 July 2011, this proposal was withdrawn. For further details see note 32.

The Group's related party transactions are disclosed in note 32.

P. Events after the reporting period

For details of the withdrawal of the News Corporation proposal, see note 32.

For details of the Company's share buy-back programme, see note 33.

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 2011.

Consolidated Income Statement	Year ended 30 June 2011 £m	Year ended 30 June 2010 £m	Year ended 30 June 2009 £m	Year ended 30 June 2008 £m	Year ended 30 June 2007 £m
Continuing operations					
Retail subscription	5,455	4,761	4,177	3,765	3,402
Wholesale subscription	323	238	206	181	208
Advertising	458	340	329	351	370
Installation, hardware and service	112	174	235	276	212
Other	249	196	210	201	200
Revenue[i]	**6,597**	**5,709**	**5,157**	**4,774**	**4,392**
Operating expense[ii]	(5,524)	(4,865)	(4,315)	(4,022)	(3,552)
Litigation settlement income	–	269	–	–	–
Operating profit	**1,073**	**1,113**	**842**	**752**	**840**
Share of results of joint ventures and associates	34	32	19	15	12
Investment income on litigation settlement	–	49	–	–	–
Investment income	9	3	35	47	46
Finance costs	(111)	(122)	(220)	(177)	(149)
Profit on disposal of joint venture	–	–	–	67	–
Impairment of available-for-sale investment	–	–	(191)	(616)	–
Profit on disposal of available-for-sale investment	9	115	–	–	–
Profit before tax	**1,014**	**1,190**	**485**	**88**	**749**
Taxation	(256)	(294)	(194)	(184)	(222)
Profit (loss) for the year from continuing operations	**758**	**896**	**291**	**(96)**	**527**
Discontinued operations					
Profit (loss) for the year from discontinued operations	52	(18)	(32)	(31)	(28)
Profit (loss) for the year	**810**	**878**	**259**	**(127)**	**499**
Net (loss) profit recognised directly in equity	(8)	61	134	187	(124)
Total comprehensive income for the year	**802**	**939**	**393**	**60**	**375**
Earnings (loss) per share from profit (loss) for the year (in pence)					
Basic	46.5p	50.4p	14.9p	(7.3)p	28.4p
Diluted	45.9p	50.1p	14.8p	(7.3)p	28.2p
Dividends declared per share (in pence)	23.3p	19.4p	17.6p	16.8p	15.5p

Consolidated Balance Sheet	30 June 2011 £m	30 June 2010 £m	30 June 2009 £m	30 June 2008 £m	30 June 2007 £m
Non-current assets	3,025	2,818	2,632	2,384	2,557
Current assets	2,329	1,986	1,937	1,698	1,363
Total assets	5,354	4,804	4,569	4,082	3,920
Current liabilities	(1,912)	(1,707)	(2,194)	(1,893)	(1,499)
Non-current liabilities	(2,407)	(2,537)	(2,439)	(2,357)	(2,374)
Net assets (liabilities)	1,035	560	(64)	(168)	47
Number of shares in issue (in millions)	1,753	1,753	1,753	1,753	1,753

Statistics	Year ended 30 June 2011	Year ended 30 June 2010	Year ended 30 June 2009	Year ended 30 June 2008	Year ended 30 June 2007
			(in thousands)		
Distribution of Sky Channels					
TV homes	10,187	9,860	9,442	8,980	8,582
Wholesale homes[(iii)(iv)]	4,382	4,312	4,271	1,248	1,259
Total Sky pay homes	**14,569**	**14,172**	**13,713**	**10,228**	**9,841**
DTT homes[(v)]	10,100	10,100	9,900	9,700	9,139
Sky Broadband homes	3,335	2,624	2,203	1,628	716
Sky Talk homes	3,101	2,367	1,850	1,241	526
Average number of full-time equivalent employees	16,006	16,439	14,922	14,145	13,087

Notes:

(i) *To provide a more relevant presentation, management has reclassified online properties and Sky Magazine advertising revenue from other revenue to advertising revenue.*

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 2011 is £26 million of restructuring costs arising on the acquisition of Living TV, which comprise principally redundancy payments and the early termination of a pre-acquisition contract, £15 million of costs in relation to the News Corporation proposal and a credit of £41 million in relation to import duty on set-top boxes paid out in prior years. This duty is recoverable due to the judgment given by the ECJ on 14 April 2011.*

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 wholesale homes includes distribution of our 'Freeview' channels by wholesale operators as part of a "Free TV" pack bundled with other products.*

(iv) *The number of wholesale homes is as reported to us by the wholesale operators. Between February 2007 and November 2008, the reported number of wholesale 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 resumed carriage of the Sky Basic Channels.*

(v) *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 2011 is at 31 March 2011.*

Factors which materially affect the comparability of the selected financial data

Discontinued operations

During fiscal 2011, the Group sold its business-to-business telecommunications operation, Easynet, to LDC. For further details see note 10 to the consolidated financial statements.

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 2011 we disposed of our equity investment in Shine and recognised a profit of £9 million. For further details see note 6 to the consolidated financial statements.

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.

Group financial record *- unaudited*
continued

Business combinations

During fiscal 2011, we completed the acquisitions of Living TV and The Cloud. The results of these acquisitions were consolidated from the date on which control passed to the Group (12 July 2010 and 23 February 2011, respectively). For further details see note 31 to the consolidated financial statements.

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).

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 together with set-top box costs are denominated in US dollars. For a discussion of the impact of exchange rate movements on our financial condition and results of operations see note 25 to the consolidated financial statements.

Non-GAAP measures

All continuing operations

Reconciliation of revenue to adjusted revenue

for the year ended 30 June 2011

	Notes	2011 £m	2010 £m	2009 £m
Revenue		**6,597**	**5,709**	**5,157**
Recognition of deferred revenue		–	–	(36)
Adjusted Group revenue		**6,597**	**5,709**	**5,121**

Reconciliation of operating profit to adjusted operating profit and adjusted EBITDA

for the year ended 30 June 2011

	Notes	2011 £m	2010 £m	2009 £m
Operating profit		**1,073**	**1,113**	**842**
Living TV restructuring costs	3	26	–	–
Costs in relation to News Corporation proposal	3	15	–	–
Recovery of import duty on set-top boxes	3	(41)	–	–
Litigation settlement income relating to claim against EDS	4	–	(269)	–
Legal costs relating to claim against EDS	3	–	1	3
Cancellation of accounts payable on settlement of claim against EDS	3	–	(5)	–
Costs relating to restructuring exercise	3	–	32	–
Recognition of deferred revenue		–	–	(36)
Adjusted EBITDA		**1,405**	**1,185**	**1,077**
Depreciation and amortisation		(332)	(338)	(268)
Costs relating to restructuring exercise included within depreciation and amortisation(i)		–	25	–
Adjusted operating profit		**1,073**	**872**	**809**

(i) Included within depreciation and amortisation for the year ended 30 June 2010 is £25 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 £3 million related to restructuring costs.

Reconciliation of cash generated from operations to adjusted free cash flow

for the year ended 30 June 2011

	Notes	2011 £m	2010 £m	2009 £m
Cash generated from operations	28	**1,569**	**1,626**	**1,215**
Interest received		7	57	47
Taxation paid		(219)	(319)	(178)
Dividends received from joint ventures and associates		29	30	20
Net funding to joint ventures and associates		(4)	(1)	(3)
Purchase of property, plant and equipment		(197)	(246)	(240)
Purchase of intangible assets		(226)	(183)	(139)
Interest paid		(124)	(156)	(217)
Free cash flow		**835**	**808**	**505**
Living TV restructuring costs		26	–	–
Costs in relation to News Corporation proposal		2	–	–
Litigation settlement income relating to claim against EDS (after tax)		–	(229)	–
Legal costs relating to claim against EDS		–	1	3
Receipt on closure of joint venture		–	(3)	-
Cash paid relating to restructuring exercise		6	–	7
Adjusted free cash flow		**869**	**577**(i)	**515**(i)

(i) The purchase of freehold land has been removed from adjusting items in the comparative periods (2010: £57 million; 2009: £24 million).

Business review
Financial review
Governance
Financial statements
Shareholder information
Glossary of terms

Shareholder information

Annual General Meeting

The Company's Annual General Meeting will be held on Tuesday 29 November 2011 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 2012 will be published:
Q1 19 October 2011
Q2 31 January 2012
Q3 4 May 2012
Q4 26 July 2012

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, Equiniti. 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 7930 3737 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")

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 enquiries relating to the Company's ADRs should be addressed to:

BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516
USA
US residents: (888) 269 2377
If resident outside the US: +1 201 680 6825
email: shrrelations@bnymellon.com

Company's registered office:

Grant Way
Isleworth
Middlesex
TW7 5QD
Telephone 0333 100 0333
Overseas +44 333 100 0333

Company registration number

2247735

Chartered Accountants and Statutory Auditor

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Principal bankers

The Royal Bank of Scotland plc
St. Andrew's Square
Edinburgh
EH2 2YB

Solicitors

Herbert Smith LLP
Exchange House
Primrose Street
London
EC2A 2HS

Glossary of terms

Useful Definitions	Description
ADS	American Depositary Share (each ADS currently represents four ordinary shares of BSkyB)
Bonus channel	A channel provided to a TV customer in addition to one or more subscription channels, but at no incremental cost to the TV customer
BSkyB or the Company	British Sky Broadcasting Group plc
Churn	The number of DTH customers over a given period that terminate their subscription in its entirety, net of former DTH customers who reinstated their subscription in that period (where such reinstatement is within a 12-month period of the termination of their original subscription), expressed as an annualised percentage of total average DTH customers for the period
DSL	Digital Subscriber Line
DTH	Direct-to-Home: the transmission of satellite services and functionality with reception through a minidish. "DTH customer" means a subscriber to one or more of our retailed packages of television channels made available via DTH
DTT	Digital Terrestrial Television: digital signals delivered to homes through a conventional aerial, converted through a set-top box or integrated digital television set
EBITDA	Earnings before joint ventures, interest, profit on disposal of available-for-sale investment, taxation, depreciation and amortisation is calculated as operating profit before depreciation, amortisation and impairment of property, plant and equipment and intangible assets
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 DTH customer
NVN	New Voice Network
Ofcom	UK Office of Communications
PL	Premier League
Premium Channels	The Sky Premium Channels and the Premium Sky Distributed Channels
Premium Sky Distributed Channels	ESPN (& HD), Disney Cinemagic (& HD), MUTV, Chelsea TV and MGM HD

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
Sky+HD	High Definition box with PVR functionality
Sky Active	The brand name for Sky's transactional interactive television services, including customer services, games, betting and messaging
Sky Basic Channels	Sky 1, Sky 2, Pick TV, Challenge, Sky News, Sky Sports News, Sky Arts 1 and Sky Arts 2, Sky Bet, Sky Poker.com, Sky Living, Sky Living Loves, Sky Living It and Sky Atlantic (and their multiplex versions and their simulcast HD versions)
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
Sky Box Office	Our pay-per-view service offering movies, sporting events and concerts
Sky by Wire	Sky's retailed packages of premium Sky channels made available on third party operators' DSL and fibre platforms
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 TV Customers
Sky Mobile	Sky's retailed packages of television channels made available to mobile devices via a wireless or 3G connection and our Sky Mobile TV platform
Sky Player	Sky's retailed packages of television channels and on demand content made available via a broadband connection and our Sky Player platform
Sky Premium Channels	Sky Sports 1, Sky Sports 2, Sky Sports 3, Sky Sport 4, Sky Movies Premier, Sky Movies Showcase, Sky Movies Comedy, Sky Movies Family, Sky Movies Action & Adventure, Sky Movies Modern Greats, Sky Movies SciFi & Horror, Sky Movies Drama & Romance, Sky Movies Crime & Thriller, Sky Movies Classics and Sky Movies Indie (and their multiplex versions and their simulcast HD versions)
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
Standalone home communications	Sky's retailed packages of broadband, talk and line rental when taken without a television subscription package
Transponder	Communication devices on satellites which send programming signals to minidishes
TV Customer	A subscriber to one or more of our DTH, Sky by Wire, Sky Player or Sky Mobile TV services
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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