British Sky Broadcasting Group plc

Annual Report 2012

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.

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 25 July 2012. 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 new products and services, 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, Over-the-top ("OTT") customer growth, Multiroom, Sky Anytime TV, Sky Anytime+, Now TV, Sky Go, 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, those risks that are highlighted in this document in the section entitled "Directors' report – Business review – Principal risks & uncertainties", and information on the significant risks and uncertainties associated with our business is described therein.

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

2012 has been another year of achievement for Sky. In a challenging economic environment, the Company has continued to make strong progress on all fronts. More customers are choosing Sky and, at the same time, are taking a greater number of products from us. Combined with a strong commitment to operational efficiency, this growth has resulted in excellent financial results and increased returns for shareholders, continuing the Company's track record of delivery over recent years. I would like to thank all our colleagues at Sky for their commitment and focus over the last year, without which none of this would be possible.

This sustained performance would be good in any environment but it is exceptional in a period when household budgets have been under sustained pressure. It is the result of a clear, consistent strategy and first-rate execution by the management team. While we must never be complacent in such a dynamic and competitive marketplace, the Board is confident that the Company is well positioned to continue to take advantage of the growth opportunity in home entertainment and communications.

As the Company looks to develop further, we also recognise the importance that customers place on dealing with responsible businesses that have a positive impact on the wider community. We have a very good story to tell, both in terms of our support for the UK creative industries and our contribution to the wider economy. This year, a new independent report has measured for the first time the very substantial impact made by Sky in terms of GDP contribution, employment and tax generation. In addition, through our Bigger Picture programme, we are working with schools to help inspire young people and develop their skills with the opening of our new Sky Skills Studios experience on our campus in west London, as well as continuing to develop our work in sport, arts and the environment.

During the year a number of changes have taken place in the Board. In April, James Murdoch stepped down as Chairman, while staying on as a Director, and I was asked by the Board to succeed him. On behalf of the entire Board, I would like to pay tribute to James for the vision, drive and strategic insight he contributed both as Chairman and previously as Chief Executive.

In parallel with my appointment as Chairman, Andy Higginson was appointed as the Senior Independent Director and Tom Mockridge as Deputy Chairman. From the Independent Directors, Allan Leighton and David Evans retired after the 2011 AGM and Dame Gail Rebuck retired in June 2012. They were succeeded by Matthieu Pigasse, Martin Gilbert and Tracy Clarke. We thank all those Directors for their considerable contribution over many years, and we warmly welcome the three new Board members. Later this year, Lord Richard Wilson and Jacques Nasser will also retire, and we are making good progress towards the appointment of their replacements.

This means that the majority of the Independent Directors will have joined within twelve months. This is in part due to the delay in replacements caused by the proposed bid by News Corporation. In order to ensure that we have sufficient Independent Directors with more than three years' experience, we have asked Andy Higginson to stay on for two additional years beyond September 2013, and I will stay on for sufficient time to ensure the necessary continuity. Through these steps, we will safeguard the interests of shareholders by ensuring the necessary balance of experience for a well-functioning Board.

Finally, in view of the Company's continued strong performance, the Board proposes a 9% increase in the full-year dividend to 25.4 pence per share and intends to seek shareholder approval for a further £500 million of share repurchases. The entire Board and management team remain fully focused on maintaining our strong performance and I would like to thank shareholders for their continued support.

Nicholas Ferguson
Chairman
25 July 2012

Chief Executive Officer's statement

Our goal is long-term, sustainable success that creates value for shareholders and has a positive impact on the communities in which we operate. We believe that the most durable businesses stand out for their commitment to continuous improvement. They constantly seek to adapt so that they stay relevant tomorrow and into the future. That is why Sky's story has always involved constant renewal. We know that to remain successful, we can't stand still.

To satisfy our existing customers and to attract more people to Sky, we need to keep moving forward and improving what we offer. That means getting better on screen, providing great entertainment that is worth paying for. It means making it easy for our customers to access Sky content, easy to watch it when and where it suits them, and easy to get more value from their subscription. And it means expanding our range of services so we offer a set of entertainment and communications products that meet customers' needs better than anyone else.

Looking back on 2012, we've continued our consistent approach to growth and returns. We've combined investment where it matters most to customers with a strong focus on driving greater efficiency across our operations. We believe this is the best formula to achieve sustainable growth in revenue, profit and cash flow over time. Our results show that this approach is working well. Despite what continues to be a tough economic environment, more customers are choosing Sky for a wider range of products than ever and our rates of customer loyalty remain very strong. During the year, we added almost three million subscription products to reach a total of more than 28 million and more than 300,000 net new households joined us. This means that Sky is now the choice of around 40% of UK households and a growing proportion of those customers choose Sky for home communications as well as for television.

This year's strong operational growth builds further on the progress that we've made over recent years. We've successfully transitioned the business to a multi-product strategy, doubling our total product base since 2008, while adding 1.6 million new customers as well. Importantly, we've achieved this growth while delivering an increasingly strong financial performance. Over the same period, we've added almost £2 billion to revenue and doubled adjusted basic earnings per share, which exceeded 50 pence for the first time this year.

POSITIVE IMPACT ON THE UK ECONOMY

As Sky has evolved, so has the positive impact that our business has on our industry and the wider economy. For example, we are now the UK's biggest investor in television programming, working with more than 100 independent producers for our entertainment channels alone. And we provide support and investment for British sport at all levels from the elite to the grassroots.

To measure and explain the scale of our wider economic impact on the UK, this year we commissioned a report from independent consultants Oxford Economics. It found that Sky contributes over £5 billion a year to UK GDP, supports nearly 120,000 jobs and generates £2.3 billion of tax revenues.

We hope that our story provides a good example of the important contribution that a successful British company can make, particularly at a time when economic growth is harder to come by. Our appetite to do more remains strong and we hope to contribute even more in the future.

DELIVERING FOR CUSTOMERS

Because the main reason customers choose Sky is for a better choice of television, we have to keep getting better on screen. So we have continued to build on our traditional strengths in sport, movies and news, while making a step change in our entertainment offering. This year we added Formula 1 to the variety of sports we cover with the launch of a dedicated channel - Sky Sports F1 - to provide greater depth of coverage than ever before. Following a number of other rights renewals, we secured a new agreement for Sky to remain the home of live Premier League football for the three seasons to 2016. As a result, we have ensured the continued breadth and quality of our sports offering, allowing customers to look forward to continued coverage of the UEFA Champions League, Heineken Cup rugby, English domestic and international cricket, European Tour Golf and the Ryder Cup.

In entertainment, our growing commitment to original British production is bringing more of the best acting and writing talent to Sky, including Sir David Attenborough, Melvyn Bragg, Ruth Jones and James Corden. Many of our home-grown comedies and dramas, such as *Stella*, *Trollied* and *Mad Dogs*, have already returned or been re-commissioned for new series. At the same time, we continue to offer the best of US drama, with Sky Atlantic bringing customers new series of much-loved shows like *Game of Thrones* and *Mad Men*. Sky News continues to offer outstanding reporting from home and abroad, while Sky Arts attracted its highest ever audiences for the *Playhouse Presents* series of original plays.

We are also offering customers more ways to enjoy our content, whether at home or on the move. Alongside our market-leading Sky+ and high definition (HD) services, we have expanded the range of content available on our video on demand service, which has now reached more than one million active users. Sky Go, which allows customers to access our programmes on devices such as laptops, smartphones and tablets, goes from strength to strength with a better choice of content and record usage figures.

To give millions more people an easy and flexible way to access Sky content in July 2012, we announced the launch of a new internet TV service, NOW TV. Available across a wide range of internet-connected devices, NOW TV will initially offer movies for instant streaming and expand to offer sports and entertainment content. Alongside the continued growth of our satellite service, this is a distinctive new way for us to meet the needs of customers who don't yet take pay TV.

Over the past year, we've continued to perform strongly in home communications as more new and existing customers recognise the quality and value of our products. Around a third of Sky customers now choose to take all three of TV, broadband and telephony, which means we are Britain's most popular provider of the 'triple play' service. During the year, we have continued to enhance our range of broadband services with the launch of more than 11,000 free WiFi hotspots and the introduction of a fibre product for customers who want higher speeds. We see a significant opportunity for continued growth as millions more customers have the opportunity to get a great quality service and save money by switching their communications services to Sky.

RECORD FINANCIAL PERFORMANCE

Combined with a continued focus on operational efficiency, this strong growth has translated to a record financial performance with earnings per share exceeding 50 pence for the first time. Total revenue increased by 3% as the growth in customers and products more than offset headwinds in advertising and Sky Business. Adjusted operating profit rose by 14% to £1,223 million, the highest level for six years, and we delivered adjusted basic EPS of 50.8 pence, up 22% on the prior year.

The Board has proposed a full-year dividend of 25.4 pence per share, an increase of 9% year on year. This represents the eighth consecutive year of growth and is further amplified by our continuing programme to return £750 million to shareholders through a share buy-back. In addition, we intend to seek shareholder approval at the Company's AGM in November 2012 for a further £500 million of share repurchases. As with the current programme, 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, we remain confident about the long-term opportunity that exists for our business. With around 13 million homes yet to take pay TV and two thirds of Sky customers not yet taking all three of TV, broadband and telephony, there remains considerable headroom for growth in home entertainment and communications.

At the same time, we are in no way complacent about the future. We expect the economic environment to remain challenging for all consumer businesses and the attractive markets in which we operate will continue to be both highly competitive and dynamic. Against that backdrop, we will remain focused on executing our clear and consistent plan. We will continue to deploy capital in areas where customers see value – in getting better on screen and improving our products and services – and maintain an acute focus on operating efficiency to underpin those investments and deliver increasing returns for shareholders.

RESPONSIBLE JOURNALISM

Sky News is the only national television news service that operates without any form of public subsidy or support. We are proud of the contribution it has made to media plurality in the UK and its track record of independent, impartial coverage. At a time of heightened interest in editorial practices across the media sector, and as part of our commitment to acting responsibly throughout our business, we commissioned both an external review of email records at Sky News and an internal audit of payment records. Reporting to the Audit Committee, these reviews found no evidence of impropriety or cause for concern.

Also this year, the Audit Committee reviewed the Company's approach to two separate investigations in which one of its journalists accessed the email of individuals suspected of criminal activity. Following a thorough review, we are satisfied that the action was justified in the public interest and subject to proper editorial oversight.

MAKING A BROADER CONTRIBUTION

We recognise that our future success depends on long-term relationships with millions of families across the UK and Ireland. Furthermore, we also understand that customers are increasingly choosing to reward companies that share their values and make a positive contribution to society.

Our position as a broadcaster allows us to inspire our customers to make a positive difference through our Bigger Picture programme – improving lives through sport, bringing the arts to more people, helping to tackle climate change and raising the aspirations of young people.

Through Sky Rainforest Rescue, our partnership with WWF and the State Government of Acre in Brazil, we are protecting a billion trees in the Amazon rainforest from deforestation. This year, we were delighted to meet our fundraising target of £4 million and to extend the project for a further three years so it can continue to support the livelihoods of more local families.

In sport, we also extended our hugely successful partnership with British Cycling, which is well on track to get a million more people cycling regularly. Team Sky, our professional road racing team, made sporting history in July 2012 as Bradley Wiggins became the first ever British winner of the Tour de France. Over 35,000 young people have now taken part in Sky Sports Living for Sports, a programme which uses sport to engage young people in education and boost their confidence. And our scholarships are helping promising young British and Irish athletes fulfil their potential and prepare for life in the spotlight.

As part of our Sky Arts Ignition series, we're working with arts organisations including Tate Liverpool to create exciting new art works around the country. We've also announced our first five bursaries to help support young artists and kick start their careers.

At our headquarters in west London, our new Sky Skills Studios aims to raise the aspirations of young people by bringing to life the experience of creating media content, aligning with the national curriculum and helping to build confidence and life skills. The Studios will be open from September 2012 and will offer a free learning experience to all schools across the country, with the aim of engaging 12,000 young people each year.

We see these activities as a vital ingredient of building long-term, sustainable success. And we will look to continue to grow what we're doing in all these areas in the future.

Our people are vital to everything that we do. So I would like thank them for their focus, energy and creativity over the past year. With their continued support and commitment, we can continue to execute against our priorities, deliver for customers and increase returns for shareholders.

Jeremy Darroch
Chief Executive Officer

Our business

WHO WE ARE

Sky is the leading pay television provider in the UK and Ireland and the fastest growing provider of home communications services in the UK. As at 30 June 2012, we had 10.6 million customers taking a total of 28.4 million products.

OUR APPROACH

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 adjacent businesses. To achieve this broadly-based growth, we continue to invest in the customer experience while improving the efficiency of our operations; all with the aim of building a larger, more profitable business.

WHAT WE DO

Sky retails pay TV services to residential customers in SD, HD and 3D via satellite, on demand with Anytime+ and on the move with Sky Go. We keep our customers connected with great-value broadband and telephony products in the home via DSL and fibre, and away from the home with The Cloud WiFi.

We also offer a number of our TV services to commercial customers and we operate adjacent businesses wholesaling our channel portfolio, selling advertising on our own and partner channels, and offering a range of betting and gaming services.

In July 2012, we launched our new internet streaming service under a different brand, NOW TV, giving consumers a new, flexible way to access Sky's content and allowing us to distribute our content more broadly across new platforms.

OUR PAID-FOR SUBSCRIPTION PRODUCTS

Television:
- DTH via the satellite
- Internet streaming via NOW TV

High Definition

Multiroom

Broadband

Telephony

Line Rental

OUR BUSINESS MODEL

We want to be the first choice for entertainment and communications so we put customers at the heart of everything we do. Through focus on quality, flexibility, value and service we can grow in a variety of ways, create value for shareholders, and make a broader contribution to the community.

Invest in standout content

Add value through innovation

Grow share in home communications

Grow adjacent businesses

Increase operating efficiency

Develop our long-term capability

Build a larger, more profitable business

We invest in high-quality, exclusive content to give customers a greater choice of TV that they are passionate about.

We deliver innovative new products and services which improve the experience of watching TV and add more value for customers.

More customers are choosing Sky home communications products over other providers for our quality, value and reliable service.

Our content investments supports growth in our adjacent wholesale, advertising and Sky Bet businesses.

We focus on operating efficiency to deliver the best service, underpin investment in future growth and increase profit, cash flow and returns.

We continue to invest in the key building blocks of our brand, our people and our infrastructure as key components of long-term success.

HOW WE DO BUSINESS

At Sky, we are focused on building a sustainable business because we believe that is the best way to achieve long-term success and create value for shareholders. We know that our reputation is a valuable asset and we want to be known for being a great company to do business with, for making a positive contribution to UK and Irish life and for being a great place to work.

A responsible business day to day

Because we never forget that people make a choice when they buy our products or watch our programmes, we pay as much attention to the way we do business as we do to the quality of the services we offer (see page 19).

Our people

We know that the performance of our people is critical to our growth and success. We aim to attract the best talent and create a culture where our people can achieve their potential and have a great career (see page 25).

Inspiring action

At Sky, we use our innovative technology to connect, entertain, inform and inspire our customers to take action, extending our reach beyond the screen to make a positive impact on society (see page 23).

How we manage risk

The Group has a formal risk management framework embedded within the business to support the identification and effective management of risk across the Group (see page 28).

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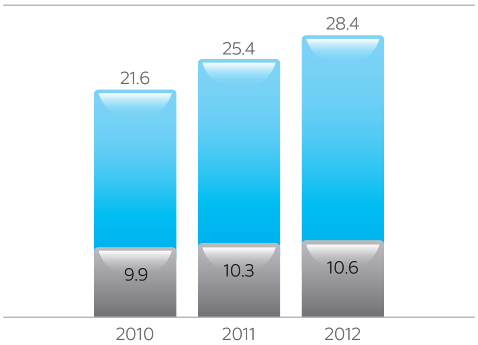
Our performance

Strong demand across our growing product range translated into growth in each of revenue, operating profit, earnings per share and free cash flow, on an adjusted basis. We have identified a number of key performance indicators, both operational and financial that we use to assess the Group's performance against its core strategic priorities. We also have 25 independently assured KPIs we use to measure our sustainability performance, which can be found at www.sky.com/thebigger picture.

OPERATIONAL KEY PERFORMANCE INDICATORS

PRODUCTS & CUSTOMERS (million)

Total products Total customers



Description

A customer is defined as a subscriber to one of our TV packages or standalone home communications service. Total products is defined as the total of all subscription products taken by our customers and includes TV, HD, Multiroom, Broadband, Telephony and Line Rental.

Analysis

Total customers and products are both key determinants of the Group's value. Our strategy is to continue adding customers and selling more products to our existing base. In 2012, we added 312,000 new customers and grew the total products taken by 12% to 28.4 million.

CHURN (%)

2012:

10.2%

2011: 10.4% 2010: 10.3%

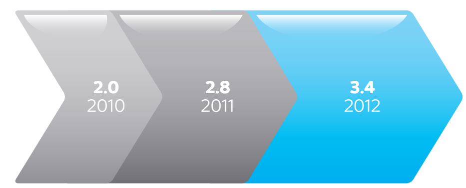
Description

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

Analysis

Churn is a good measure of customer satisfaction, which is a key driver of value for our business. Churn for the year 2012 was stable at 10.2%.

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



Description

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

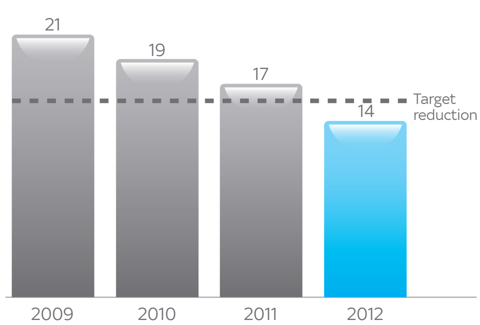
Analysis

This is an important measure for our business, with higher penetration positively impacting ARPU and customer loyalty. At 30 June 2012, 3.4 million customers chose each of TV, broadband and telephony, up 21% from the prior year.

We have included an environment metric which is one of 10 independently assured KPIs we use to measure our environmental performance (see www.sky.com/thebiggerpicture) and a people metric as a measure of employee satisfaction in pursuit of our goal to be a great place to work.

GROSS CO_2e EMISSIONS (t/£m REVENUE)

Gross CO_2e emissions (t/£m) - - - Target reduction



Description

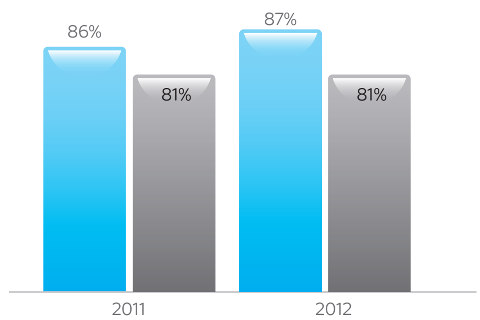
Total gross CO_2e emissions include emissions from premises and company-owned vehicles (Scope 1 and 2).

Analysis

We audit our carbon footprint each year and use the results to drive reductions across the business. Our absolute gross CO_2e emissions fell by 10% in 2012 despite Sky growing as a business. As such, we have already achieved our target to reduce our CO_2e emissions (t/£m revenue) by 25% by 2020 versus a 2008/09 baseline.

EMPLOYEE ENGAGEMENT

Sky engagement UK National Norm



Description

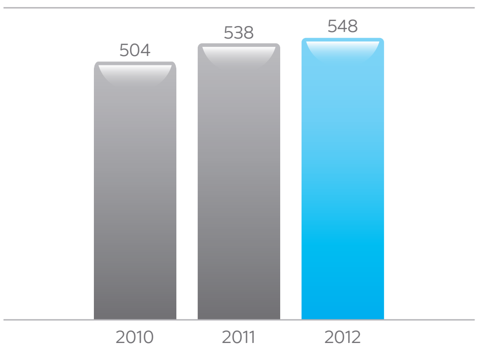
To measure employee engagement we commissioned an external and independent survey of our employees. As part of a broad array of topics surveyed, employees are asked a series of questions designed to quantify engagement.

Analysis

Employee engagement is a good indicator of how our employees feel about the company. As well as reaching a high performance indicator for employee engagement, we have improved on the last year and performed better than an independent external benchmark of other blue-chip companies in each of the last two years.

FINANCIAL KEY PERFORMANCE INDICATORS

ARPU (£)[3]



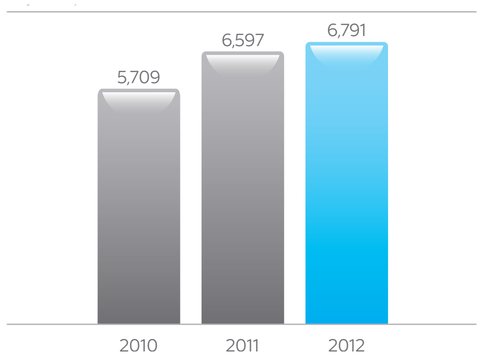
Description

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 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 £10 as customers rewarded us with more of their business.

REVENUE (£m)[1]



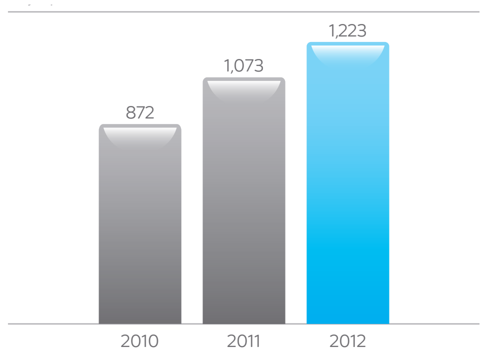
Description

Revenue includes revenue from retail subscriptions, wholesale revenue, advertising and installation, hardware and service revenue.

Analysis

Revenue is a key measure of how the Group is delivering on its strategy to grow the business. In 2012, revenue grew by 3% on last year notwithstanding prices were frozen for existing customers.

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 14% in 2012.

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

2012: **+22%**

50.8p

2011: **41.6p** (+30%) 2010: **32.1p** (+15%)

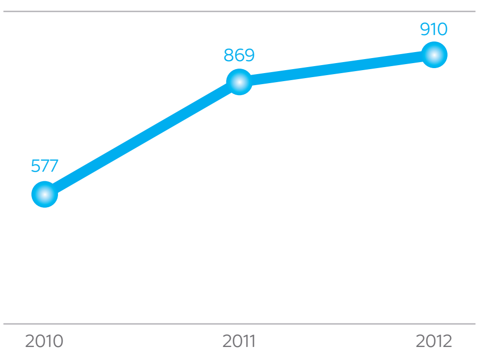
Description

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 22% to reach a record level of 50.8p.

ADJUSTED FREE CASH FLOW (£m)[1,3]



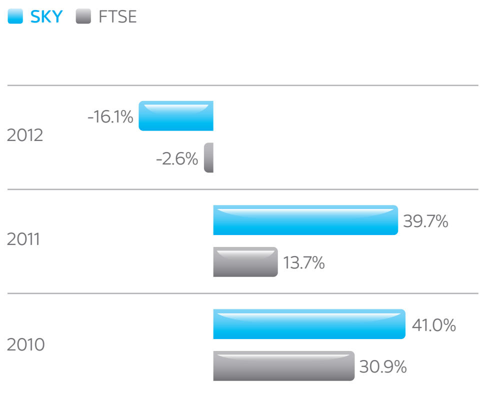
Description

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 5% as a result of higher profitability and strong working capital.

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. BSkyB shares under performed the FTSE 100 index by 13.5 percentage points in the year to 30 June 2012, however our share price was heavily influenced by the withdrawal of the proposed offer by News Corporation on 13 July 2011. In the period since the withdrawal, we outperformed the FTSE by 4.1% on a TSR basis.

1 From continuing operations
2 For further details see note 10 of the consolidated financial statements.
3 For a reconciliation of non-GAAP measures, including a reconciliation of ARPU which has been restated for 2011 and 2010, see page 128.

Review of our business

INTRODUCTION

Overview of the business

Sky operates the most comprehensive multichannel, multi-platform pay television service in the UK and Ireland. We have led the UK into the age of HDTV and launched Europe's first 3DTV channel, Sky 3D. We give our customers greater access, control and choice while on the move with Sky Go and at home with Anytime+, our video on demand service. NOW TV, our new internet TV service launched in July 2012, gives consumers a new, flexible way to access Sky's content. Since launching Sky Broadband and Sky Talk in 2006, Sky has been the UK's fastest growing provider of home communications.

At 30 June 2012, we had 10.6 million customers taking a total of 28.4 million products. We are the UK's fastest growing home communications provider and the UK's largest triple play provider with 3.4 million customers choosing to take each of TV, broadband and telephony.

Our consistent operational performance is translating into record financial results. For the year ended 30 June 2012, total revenue increased by 3% with continued growth in products and customers. Combined with our continued focus on efficiency, revenue growth translated into 14% growth in adjusted operating profit to reach a record £1,223 million and the highest operating profit margin for six years at 18%. We continued our strong track record for shareholder returns with 9% growth in the full year dividend of 25.4p, our eighth consecutive year of growth. In addition, we have returned £543 million to shareholders via our ongoing share buy-back programme meaning that we will have returned almost £1 billion throughout the course of 2012.

This review of the business sets out the Group's main activities which are summarised as follows:

- **Our retail business –** our products and services
- **Our content –** our channel portfolio
- **Our adjacent businesses –** Sky Media; Wholesale Distribution and Sky Betting and Gaming
- **Infrastructure and technology –** satellites; playout and uplink facilities; digital satellite reception equipment; encryption and security and communications infrastructure

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. A list of our significant investments is set out in note 32 to the consolidated financial statements.

OUR RETAIL BUSINESS

Overview of our retail business

We retail subscription TV and communications services to residential and commercial premises in the UK and Ireland. Our customers enjoy an unprecedented choice of entertainment, sports, movies, news and arts channels. We own and broadcast the Sky Channels which we retail together with the Sky Distributed Channels to our TV customers and since July 2012 we offer simple and commitment free access to an internet TV service. We keep our customers connected with great value broadband and telephony products in the home via DSL and fibre, and away from the home with The Cloud WiFi.

Products and Services

Television

- *The Sky Channels and Sky Distributed Channels:* For our TV Customers, we group the Sky Distributed Channels (other than the Premium Sky Distributed Channels) and the Sky Basic Channels into two packs; Entertainment and Entertainment Extra. Entertainment is available for £20 per month and includes popular entertainment channels such as Sky 1, Sky Atlantic, Sky Living, Comedy Central, Watch, Gold, Alibi and FX. Entertainment Extra is available from £25 per month and includes all the channels from our entertainment pack plus additional channels including Discovery and Disney. Customers then have the option to add a combination of Premium Channels to their package. The Sky platform currently offers access to 174 pay television channels (145 Sky Distributed Channels and 29 Sky Channels) and in addition all customers can receive more than 300 free-to-air television and radio channels and services. 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.

- *Sky+:* TV Customers can use Sky+ to record two programmes simultaneously whilst they are watching another programme recorded earlier. TV Customers can also use Sky+ to pause and rewind live TV and record entire series at the touch of a button with the 'Series Link' feature. The Sky+ app on selected smartphones allows TV customers to see what is on, view recommendations, record programmes and set up a 'Series Link' whilst on the move.

- *Sky HD:* We operate an HD service which consists of over 60 HD channels offering a range of content across all key genres including six Sky Sports channels, 11 Sky Movies channels, Sky 1 HD, Sky Living HD, Sky Atlantic HD, Sky Arts 1 HD and 2 HD, Sky News HD, two Sky Box Office HD channels, 30 HD channels provided by our partner broadcasters and six free-to-air HD channels.

- *Sky Multiroom:* We also offer our DTH customers a multiroom subscription, allowing customers to watch Sky TV in different rooms at the same time by purchasing additional set-top boxes.

- *Sky Anytime TV and Sky Anytime+:* Sky Anytime TV offers a wide selection of content from across the Sky platform, from both the Sky Channels and the Sky Distributed Channels for customers to watch on demand. Sky Anytime+, our IP delivered video on demand service, is available to homes that have an active broadband connection. Once connected, relevant TV Customers have the opportunity to access a broad and regularly updated library of content on demand. With thousands of hours of TV to choose from, customers can access over 600 films, popular entertainment and drama 'box-sets' (including iconic series from HBO), documentaries, the arts and much more.

- *Sky Go:* DTH customers can access the Sky Go service to enjoy live TV from their Sky TV package and on demand content via their PCs, laptops, selected smartphones and iPads. Each Sky home is entitled to register up to two compatible devices. On iPhone, iPod Touch, iPad and supported Android devices, customers are able to access all six Sky Sports channels, ESPN, British Eurosport, Sky News, Sky 1, Sky Living, Sky Arts, Sky Movies and Sky Atlantic, with further channels and devices to be added over time. On laptops and computers, customers are able to access more than 30 live channels, including all six Sky Sports channels, Sky Movies, Sky News, Sky 1, Sky Atlantic, Sky Arts, MTV, Disney, G.O.L.D, Nickelodeon, NatGeo, History, Eden and ESPN, supported by an extensive library of on demand content.

- *Sky Box Office:* Our Sky Box Office service currently offers our DTH customers television premieres of movies and occasional live sports entertainment events on a pay-per-view basis.

- *Sky Store:* Sky Store is our on demand rentals service, giving customers a choice of over 1,000 movies including new releases just out on DVD and a whole library of favourites, all available to rent instantly.

- *NOW TV:* NOW TV, a brand new internet TV service giving consumers an easy and commitment-free way to access some of the best Sky content, is now available across a wide range of internet-connected devices. The service, which launched on 17 July 2012 with Sky Movies, offers easy access to hundreds of the best and latest Hollywood titles on a flexible basis. Movie fans have the option of choosing from a £15 monthly pass, offering completely unlimited access to more than 450 different films each week, or renting movies on a simple pay-as-you-go basis, with prices starting from 99p.

Home communications

- *Sky Broadband:* Sky Broadband is now the choice of over four million homes across the UK. As at 30 June 2012, our broadband network covered almost 83% 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 download speed of up to 14Mbps (depending on location) and up to 1.3Mbps 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 download speed of up to 6Mbps (depending on location) and 40GB monthly usage. Sky Broadband Unlimited and Sky Broadband Connect are also available to customers who do not take a television service from Sky. As part of a Sky Broadband subscription, we provide customers with a WiFi capable DSL modem/router. We also offer installation and equipment repair and exchange services. From April 2012, we gave Sky customers even greater choice with the launch of a fibre broadband offering called Sky Fibre Unlimited, which gives customers access to download speeds of up to 38 Mbps or up to 76 Mbps for £20 and £30 per month respectively, without usage caps. The fibre product is wholesaled from BT and therefore available to Sky customers who reside within the coverage area of BT Infinity.

- *Sky Talk:* Sky Talk is a telephony service available to homes in the UK and has over 3.7 million customers. Sky Talk Freetime offers customers inclusive 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 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.

- *The Cloud WiFi:* We have further enhanced our broadband service with the commercial launch of The Cloud WiFi hotspots in April, to give seamless internet access free of charge to Sky Broadband Unlimited, Sky Fibre Unlimited and Sky Connect customers. We now have over 11,000 high bandwidth, public access hotspots across the UK, providing valued WiFi access for customers in locations where people dwell. The service provides even greater flexibility and convenience and will prove particularly valuable for customers who access Sky content on the go, with high quality wireless delivering an even better experience for Sky Go and Sky's other video-rich applications.

Sky Business

We offer a number of our services, including our HD service, to commercial TV 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

Review of our business

continued

upon the type of business premises within which such customers wish to show our services. Our commercial TV customers include offices, retail outlets, hotels, pubs and clubs. Following our acquisition of The Cloud Networks Limited we also offer WiFi services to commercial customers.

ECJ judgment: On 4 October 2011, the European Court of Justice ("ECJ") handed down its judgment in actions brought by the Premier League ("PL"), amongst others, against pubs using (and suppliers supplying) foreign decoder cards and boxes to view live PL football. The ECJ determined that restrictions in an agreement between the PL and its Greek licensee, which obliged that licensee not to supply decoding devices to persons outside the licensed territory, are contrary to EU laws. The ECJ found that, although the PL did not have copyright in the live coverage of its football matches, the PL title sequences, logo, anthem and graphical elements did attract protection under the Copyright Directive. The High Court consistently applied the ECJ's judgment to the cases before it and the defendants in the civil litigation (the foreign card suppliers) were found to have infringed the PL's copyright. The High Court also held that certain provisions in the PL's agreements with foreign distributors prohibiting the distribution of decoder cards outside of the authorised territory were void under competition law.

OUR CONTENT

Overview of our content

A key element of our approach is to invest in high quality content to give customers a greater choice of TV that they value and are passionate about. Our investment on-screen differentiates Sky from free-to-air offerings, gives customers more reasons to join and helps keep our existing customer base loyal. Our investment approach is aimed at building on our traditional strengths in sport, movies and news and at the same time driving a step change in our entertainment portfolio. We know that home-grown, exclusive content resonates strongly with our customers so as part of the accelerated development of our entertainment offering, we have committed to increasing our investment in high-quality British content by 50% to around £600 million per year.

Our channel portfolio

Our entertainment channels

- *Sky 1:* Sky 1 HD is targeted primarily at a 16-44 age group audience and includes UK-commissioned comedy and drama, factual and features, factual entertainment and big, popular family entertainment in addition to the best of US programming. In the last year, Sky 1 aired some of the most popular original comedy and drama in multi channel history including *Mount Pleasant*, *Stella* and *Trollied*. 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 Living:* Sky Living HD is targeted primarily at our female customers. During this financial year, notable original commissions include the dating show *Love Machine*, hosted by Chris Moyles and Stacey Solomon, *Steps Reunion* and follow up *Steps on the Road Again*, and the second series of the original British Drama *Bedlam*. Sky Living also continues to bring the best of US content to our customers including *Bones* and *Criminal Minds*.
- *Sky Atlantic:* Sky Atlantic HD was launched in February 2011 following Sky's exclusive deal with HBO. It has become best known for showing some of the most iconic and hotly anticipated shows in television and is committed to investing in, and showcasing, world-class UK originations across drama (including its first UK drama *Hit and Miss* starring Chloe Sevigny), comedy and documentaries as well as bringing the best programming from the US.
- *Sky Arts:* Sky Arts 1 HD provides contemporary culture and entertainment programmes and documentaries such as *Playhouse Presents* starring Tom Jones, Emma Thompson and David Tennant and *The South Bank Show*. Sky Arts 2 HD broadcasts a range of the best in classical arts programming from around the world, including opera, literature, theatre, film and dance.

Sky 1, Sky Living, Sky Atlantic, Sky Arts 1 and Sky Arts 2 are all broadcast in HD and are also available on Sky Go (except Sky Arts 2) and content from the channels is available on demand via Sky Anytime, Sky Anytime+ and Sky Go.

Sky Movies

- *Sky Movies Overview:* The Sky Movies channels show a broad range of movies from the latest Hollywood blockbusters to cult classics. Through our agreements with the major studios and some of the leading independents, Sky Movies offers customers over 450 different movies a week, including up to five new premieres before any other pay TV channel. To make it easier for customers to find their way around the choice of films, movies are grouped into different genre channels including Sci-Fi & Horror, Comedy, Drama & Romance and Family. The Sky Movies channels are divided into two packs. Customers taking both packs receive 11 Sky Movies channels plus bonus channels Disney Cinemagic and MGM HD. All of the Sky Movies channels are available in HD. We don't show any advertisements during our films and we PIN-protect pre-watershed. Sky Movies can be enjoyed by Sky Movies TV customers on demand via Sky Anytime, Sky Anytime+ and Sky Go.
- *Competition Commission Investigation:* In August 2010, Ofcom announced its decision to refer the supply and acquisition of pay TV movie rights and the wholesale supply and acquisition of pay TV packages including Sky's movie channels to the Competition Commission ("CC") for investigation. On 23 May

2012, the CC reached revised provisional findings that Sky's position concerning the acquisition and distribution of subscription pay TV movie rights does not adversely affect competition between pay TV retailers. As a result, the CC is not proposing any regulatory intervention. The statutory deadline for completing the investigation is 3 August 2012.

Sky Sports

- *Sky Sports Overview:* The Sky Sports Channels are Sky Sports 1, Sky Sports 2, Sky Sports 3, Sky Sports 4, Sky Sports News and Sky Sports F1. Sky Sports F1, our dedicated Formula 1 ("F1") channel, was launched this year and gives in-depth access to all 20 Grand Prix races at no extra charge for Sky TV customers who subscribe to Sky Sports 1 and 2 or our HD pack. Each of the Sky Sports channels is also available in HD to subscribers 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, Sky Sports News and Sky Sports F1 are all available online on Sky Go. Some content from those channels is also available on demand via Sky Anytime, Sky Anytime+ and Sky Go.

- *Sky Sports programming rights:* In March 2006, the European Commission rendered legally binding the PL's commitment to sell live TV rights in six balanced packages for the three seasons from 2010/11, 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 PL football in the UK. These rights run from the beginning of the 2010/11 season to the end of the 2012/13 season. In June 2012, following a restructure of the tender process, seven packages of live Premier League rights to 154 matches for seasons 2013/14 to 2015/16 were offered by the PL. No one bidder was allowed to win more than 116 matches . We successfully secured five of the seven PL packages (116 live matches per year from the 2013/14 season). In addition to the 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, motorsport, rugby union, rugby league, cricket, golf and tennis events. We also give valuable exposure to other sports which appeal to a smaller but equally committed audience.

- *Wholesale must-offer obligations:* 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"). 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 specify 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 Competition Appeal Tribunal ("CAT") for a suspension of the implementation of the WMO Obligations. On 29 April 2010, Sky's application was resolved by way of an agreed Order from the President of the CAT. The terms of the Order resulted 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 Virgin Media ("VM") for distribution via Digital Terrestrial TV and to 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

Review of our business

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licences that implement the WMO Obligations (the "WMO Conditions"). Sky submitted two appeals against this decision on 11 October 2010 and 14 February 2011 respectively. These two appeals were dealt with by written submissions without a hearing. Judgment of these appeals is also awaited.

Sky News

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" on page 17), 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, Sky News mobile applications, the Sky News for iPad application and on Sky Go. In 2012 Sky News won the Royal Television Society award for both best home news coverage and best international coverage for its work during the UK riots and in Libya. Special correspondent Alex Crawford was also named Television Journalist of the Year for the fourth time by the Royal Television Society and Anna Botting won Best Presenter.

In May 2012, Sky News Arabia, the multi-platform 24-hour Arabic rolling news channel joint venture between Sky and ADMIC was broadcast for the first time to over 50 million homes across the Middle East and North Africa to offer a new and fresh approach to news across the Arab world. Sky News Arabia is committed to providing independent news, whatever the story and offers its audience must-view content from breaking stories to sport, from business to entertainment. The channel is supported by an Editorial Advisory Committee, a first for the region, to ensure Sky News Arabia delivers balanced, accurate and consistent news. Broadcasting from its state of the art headquarters in Abu Dhabi, the channel promises a 'new horizon' in the way it delivers news across multiple platforms.

OUR ADJACENT BUSINESSES

Overview of our adjacent businesses

In addition to the retail operations described above, we operate a number of other businesses including wholesaling our channel portfolio, selling advertising on ours and partner channels and Sky Bet. We are able to monetise our content investments more broadly with these businesses as they benefit from a larger customer base.

Sky Media

In fiscal 2012, we derived revenue from continuing operations of £440 million from advertising sales and sponsorship (2011: £458 million). Sky Media sells advertising and sponsorship across all of the Sky Channels and also acts as the advertising and sponsorship sales representative for more than 63 partner channels. We also sell online advertising across Sky's network of websites, mobile advertising, green-button advertising, advertising across Sky's video on demand service and product placement opportunities.

Wholesale Distribution

Overview of wholesale distribution

In fiscal 2012, we derived £351 million in revenues from continuing operations from the wholesale distribution of our channel portfolio (2011: £323 million). Wholesale operators (see "Wholesale Operators" section below) acquire the rights from us to distribute certain of the Sky Channels which they combine with other channels from third parties and distribute to their subscribers.

Wholesale Operators

In the UK, we have arrangements in place with VM for the re-transmission of certain of the Sky Channels and associated on demand services on its cable systems, as well as agreements with British Telecommunications and Top Up TV Limited for the distribution of Sky Sports 1 and Sky Sports 2 via DTT. On 13 July 2012 we entered into an arrangement with TalkTalk for the retransmission of certain of the Sky Channels for distribution on its IPTV system. In Ireland, we have arrangements in place with UPC Communications Ireland Limited for the re-transmission of certain of the Sky Channels to their subscribers via its cable and MMDS systems. We also have contracts with a number of smaller regional cable operators in both the UK and Ireland.

Free-to-Air 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.

Betting and Gaming

We offer a range of betting and gaming services under the "Sky Bet", "Sky Poker", "Sky Vegas" and "Sky Bingo" brands, in relation to which Sky acts as bookmaker and operator. These products are licensed by the Alderney Gambling Control Commission and are made available across multiple platforms, including by means of Sky set-top boxes, by telephone, on the internet and on mobile devices. 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 also take active measures to prevent persons resident in the US and other restricted jurisdictions from participating in our internet gaming and betting services.

INFRASTRUCTURE AND TECHNOLOGY

Overview of our infrastructure and technology

Sky utilises a powerful hybrid network to support our leading innovation for customers and deliver a high quality integrated entertainment experience for our customers. The satellite is the most efficient means to broadcast high definition live TV into the home and the local storage of the HD set-top box gives customers the added capability of time-shifted viewing. Our

HD box is Ethernet enabled and connects via broadband to give customers access to an extensive library of additional content to view at times convenient to them. We have also developed a range of software applications that enable access to our content across multiple devices and away from the home. Developing and maintaining our technological capabilities is critical to our commitment to and passion for continued innovation.

Satellites

The digital transmissions of our channels for reception both by DTH customers and cable operators take place using capacity on a number of satellite transponders on the SES Astra 2A, 2B and IF satellites and the Eutelsat 28A satellite. We contract with SES Astra for the majority of this capacity (currently 32 transponders) and with Arqiva for the remaining capacity (four transponders on the Eutelsat 28A satellite). 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 SES Astra supplied transponders in the event of transponder or satellite failures. 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.

We consider that these arrangements with SES Astra are essential to the business of the Group within the meaning of section 417(5)(c) of the Companies Act 2006.

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.

Playout and uplink facilities

Our uplinking facilities, located in southern England, provide uplinking capacity for our digital services to the satellites referred to above. Our television channels are distributed from two sites with each of the sites providing backup service for the other.

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 and a remote control. We source all of our set-top boxes from our own manufacturing division, Home Service and Supply. Home Service and Supply designs, specifies, develops and sells HD set-top boxes (both PVRs and standard set-top boxes) (although the actual manufacture of these set-top boxes is outsourced to factories in Romania and China) and in conjunction with such activities supports the development of additional new features and functionality for those set-top boxes.

Encryption and security

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. 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.

Other digital rights management and/or conditional access systems are used to protect our content when it is distributed by means of other platforms (e.g. cable, DTT or via the range of devices relying on Internet-delivery). Where we wholesale our content these systems will have been deployed and are operated by the relevant wholesale customer (e.g. VM or Top Up TV) and similarly in relation to certain devices (e.g. iPhones or Xbox) the device manufacturer may determine the type of content protection system deployed.

Communications Infrastructure

Our broadband network comprises a fixed access network, a public WiFi access network, and a long distance core fibre network. To provide broadband, we rent the copper line to the customer from BT on regulated terms. Those lines are connected to our own electronic equipment in the local telephone exchange. Our electronic equipment is currently sited in 1,965 telephone exchanges, covering an area containing 83% of the UK's population. In April 2012, we launched 'fibre' broadband, offering a choice of up to 38 Mbps or up to 76 Mbps. To provide fibre broadband, we purchased a further wholesale product from BT, which BT is again obliged by regulation to supply, which makes use of BT's electronics in the cabinet before being put onto our network. Our WiFi network, The Cloud, was made available to all broadband customers on our Unlimited packages in April 2012.

Review of our business

continued

It provides public WiFi access in over 11,000 venues across the UK. The Cloud's hotpsots are in the final stages of a migration onto our own broadband platform; using Sky's equipment in local exchanges, and using our broadband backbone network. Our core fibre network is one of the most extensive all-IP, fibre optic networks in the UK. It comprises 7,500 kilometres of high capacity fibre optic circuits, stretching from Cornwall to Scotland. This state of the art network has recently been upgraded to increase capacity and uses the latest IP Multimedia Subsystem (IMS) technology.

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.

In June 2012, following a restructure of the tender process seven packages of live PL rights for seasons 2013/14 to 2015/16 were offered by the PL. The Group successfully secured five of the seven PL packages (116 live matches per year from 2013/14 season) and we will now enter into exclusive negotiations with the PL to agree the terms of a long form agreement which (in relation to the consequences of a change of control of the Company) is expected to be based on the terms of the current PL Licence.

Revolving Credit Facility

The Group has a £743 million syndicated revolving credit facility ("RCF") with a maturity date of 31 October 2016. There are two opportunities to request an extension of one further year to the RCF, at the lenders' discretion, with a potential final maturity of October 2018. The lenders can require any amounts outstanding under the RCF 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, under the EMTN Programme the Company issued Eurobonds consisting of £300 million guaranteed notes paying 6.000% interest and maturing on 14 May 2027 (the "Notes"). 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. 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.

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 and may revoke those licences if it ceases to be so satisfied. On 9 March 2012, Ofcom stated that it is continuing to gather and assess evidence as part of its ongoing assessment of whether Sky is fit and proper to hold its broadcasting licences.

HOW WE DO BUSINESS

Sky is part of the everyday lives of millions of people in the UK and Ireland and has an unparalleled opportunity to ensure our impact on society is a positive one. By connecting people to the wider world we can inspire action that makes a difference to the communities where we live and work.

This also helps us to be a better business by building our brand and our reputation. We want to be known for being a great company to do business with, for making a positive contribution to UK and Irish society and for being a great place to work.

Sky's Ways of Working

We never forget that people make a choice when they buy our products or watch our programmes. We pay as much attention to the way we do business as we do to the quality of the services we offer. We make sure that everyone at Sky understands how we do business by communicating our expectations of them through our code of conduct, called Sky's Ways of Working. This defines our commitment to our customers, colleagues, shareholders, business partners and the broader community, clearly setting out our values as a business.

Our role in society

As a broadcaster, our primary role in society is to entertain, inform and inspire the millions of people that access our services. Commercial success comes from delivering what our customers want.

Sky plays a key role in making the television sector more competitive in the UK and Ireland, offering quality, choice and more great viewing experiences at affordable prices. Our award-winning Sky News provides non-stop independent current affairs coverage and world-class journalism. The nature and documentary channels we distribute give viewers a bigger window on their world. And through sports, movies, arts and original drama, we deliver content that gives people of all interests and backgrounds the chance to indulge and share their passions.

This means that, beyond providing simply entertainment, we are changing the cultural landscape of the UK and Ireland, enabling our viewers to access more diverse, high quality, informative and inspiring content than ever before.

The creative industries are one of Britain's key economic strengths. Sky is a central part of this. We make a huge contribution to the growth and success of this sector in the UK. Sky is the UK's biggest commercial investor in TV content, spending over £2 billion a year, two-thirds of which is in the UK.

Our investment

Sky is amongst the most innovative broadcasters in the world, driving the advance of media and communications technology in the UK and Ireland. A pioneer of multi-channel television, we have also been at the forefront of the rollout of high-speed broadband, digital and HD television and now 3D TV.

Since 2000, Sky has invested some £3.2 billion in the media and communications infrastructure in the UK and Ireland, helping to lay the foundations of a modern service economy. This makes us one of the largest technology investors in these countries.

In 2012, a study by Oxford Economics estimated Sky's success to have resulted in a contribution of £5.4 billion to the UK economy in 2011. This is equivalent to around 40% of the contribution made by the entire UK television and radio creative sector. Our operations resulted in £941 million being paid in taxation in that year to the UK government and we provided employment for 22,800 (direct and full-time contract) people, with thousands more suppliers and business partners' jobs depending on our operations.

A RESPONSIBLE BUSINESS DAY TO DAY

At Sky, we recognise that doing the right thing in our day-to-day operations is vital. This is how we build trust among our customers, employees, suppliers and the wider community. We do this through our products, services and programming, our positive actions in the communities where we live and work, our partnerships with our suppliers and the steps we take to minimise our environmental impact.

Review of our business

continued

Customers

We put our customers at the heart of everything we do. We aim to continue to provide products that people want at an affordable price and to back this up with excellent customer service.

Great service delivery

Delivering great service is critical to keeping our customers for the long term. We do this by making it easy for them to interact with us online or on the phone. We ensure our products are reliable and we deliver high levels of service when our customers contact us.

We have focused on enabling our customers to get in touch with us in multiple ways. Our live chat capability is now at scale and our customer help forum attracts over 1 million thread views each week. Online is also now our leading channel for new sales and product upgrades. We have made it easy for customers to self-serve for basic services such as resetting a PIN or changing payment details and they can do this online, on mobile or through automated voice services.

We know that great service comes from having great products. By bringing the design and control of our set-top box in house, we've driven efficiencies in cost and improved reliability. This also ensured we were able to maintain supply following the Thai floods in 2011 which impacted global supply of hard disk drives. Our engineers are trained to provide a top quality end-to-end service in the home and as a result we have seen a 30% reduction in service visits, the lowest level for over eight years.

Over the past year we have expanded our customer management centres from Scotland, Stockport, London and Leeds, opening in Sheffield and Newcastle and creating over 1,200 new customer service jobs. We will open our Dublin centre later this year to locally serve customers in Ireland. As well as employing local people, we have invested over 700,000 hours in training all customer-facing staff to deliver high quality service.

Our commitment to getting it right first time has resulted in a 50% reduction in our call waiting times.

We use a range of mechanisms to gather feedback from our customers to help improve the services and products that we offer them. In November 2011, Ofcom rated Sky number 1 in the UK for overall customer service for fixed broadband, pay TV and landline services.

We want our customers to enjoy and value our products and services. We provide honest and accurate information and, if a customer is disappointed or unhappy, we listen and take their concerns seriously. We know that sometimes things go wrong and, when this happens, we work to get issues fixed as fast as possible. If a customer wants to complain about our services, we tell them how to do so and try to resolve their complaint quickly.

We monitor the effectiveness of our approach and in results published in June 2012 by Ofcom, Sky was the best performing of all pay TV companies, with only 3 complaints to Ofcom per 100,000 customers.

Data protection

Customers trust us with their personal details and we make sure that this information is kept confidential and secure. We have clear data protection policies and compliance processes. Our Data Governance Committee, chaired by a member of our Executive team, promotes best practice in the way we handle personal data and helps to ensure compliance with relevant legislation. We provide training for our people so that they understand their responsibilities in relation to the protection of information and who to contact should they have any questions.

Over the year Sky was not found in breach of any data protection laws and was not subject to any enforcement notices or court proceedings with regards to data protection. A small number of complaints regarding Sky were sent to the regulator over the year and they were all resolved without the Information Commissioner's Office taking formal action. Further, we successfully implemented the new requirements for monthly logging and reporting of data breaches to the Information Commissioner's Office in July 2011.

Access for all

It is important to us that our products and services can be enjoyed by everyone, including those with disabilities. We have a comprehensive approach to building accessibility into our core products, services and customer support channels because we know the important role that television and communications play in connecting those with disabilities to each other and to the wider world.

For people with visual impairments, we provide audio description on 26% of our programming, significantly exceeding the 10% now required by Ofcom. For deaf and hard-of-hearing customers, we offer over 400,000 hours of subtitling per year and we invest in the development of quality sign-language-presented programming through our support of the British Sign Language Broadcasting Trust. The table below shows the total average quotas and performance of Sky's access service provision on five core channels.

Access service provision against Ofcom requirements[i]

	2010/11		2011/12	
Key performance indicator	Annual Quota	Achieved	Annual Quota	Achieved
Subtitling[ii] (%)	60	68	70	74
Audio Description[iii] (%)	10	27	10	26

Notes
(i) 2011/12 data is independently assured by Deloitte LLP and can be viewed online at www.sky.com/thebiggerpicture
(ii) average across Sky News, Sky 1, Sky Sports 1, Sky Sports News and Sky Movies Premier
(iii) average across Sky 1, Sky Sports 1 and Sky Movies Premier; Sky News and Sky Sports News are exempt

Over the year, we continued to improve how we support customers with disabilities through completing detailed user-testing with blind and partially-sighted customers on our EPG and our Accessibility Website, as well as first of its kind research to understand how our customers with disabilities would like to see us improve our accessibility offering in the future. Our engagement with disability stakeholders has also seen Sky sign up to the Employers' Forum on Disability Accessibility Charter.

Child safety

Keeping children safe is an important issue for our customers. We make sure parents and customers have the tools to protect their children when watching Sky TV and using Sky Broadband. On our television platform, we continue to provide market-leading parental control technology which includes the ability to set a bespoke watershed or restrict access to specific channels altogether. Likewise every broadband customer can take up parental controls on their home computer, free for as long as they want them, and we provide advice and support on how customers can protect themselves and their families on www.sky.com.

Over the last year, Sky has actively engaged with government and interested parties around online safety issues. We contributed to the Bailey Review on the Commercialisation and Sexualisation of Children and, along with relevant stakeholders, co-authored the UK's first Code of Practice for child internet safety. We are continuing to work collaboratively to deliver against this Code while also exploring other ways to help empower parents further to keep their children safe when using the internet.

Responsible betting and gaming

At Sky we are all about entertainment. Many people enjoy the excitement that comes with placing a bet on a sport they love. And with online gaming people can connect with a great community of players who share their passion for challenge and fun. We know we need to provide these services in a way that encourages responsible gambling so that we ensure that Sky Betting & Gaming is a successful business.

Tools such as deposit limits on accounts help our customers stay in control of their gambling. We make filtering software available so that parents can prevent children accessing gambling websites. We are proud that all our services are GamCare accredited, one of a number of independent charitable organisations with whom we work closely, who offer confidential help and support to our customers. And in 2011 Sky Betting & Gaming was named Socially Responsible Operator of the Year at the 5th International Gaming Awards in recognition of our commitment to delivering the highest standards for customer protection.

Programming

We're proud of our track-record as a responsible broadcaster. For over twenty years, we have brought choice and innovation to UK audiences.

Editorial practices

We are committed to maintaining the highest editorial standards, with our news channels governed by strong editorial controls that ensure honest, independent and accurate journalism. During the year we concluded a review of editorial practices at Sky News finding no evidence of impropriety. Separately, the Audit Committee reviewed the Company's approach to two separate investigations undertaken by Sky News in which a Sky News journalist accessed the email of individuals suspected of criminal activity. Following a thorough review of each of those cases, Sky is satisfied that the action was justified in the public interest and subject to proper editorial oversight.

Advertising and marketing

Our Sales and Marketing Code of Practice outlines specific required behaviours for all staff in their sales and marketing dealings with customers. Adherence to these important policies is overseen by senior managers and our internal compliance team through mystery shopping, site visits, and periodical call recordings. In our sales operations alone, more than 8,000 evaluations are completed by managers and the Sales Quality Team each month.

Copyright

We have invested billions of pounds in high-quality entertainment for our customers because we know how much our customers value it. It's therefore important that companies like ours do what they can, alongside the Government and the rest of the media and technology industries, to help protect their copyright. Such protection makes sure that consumers continue to benefit from TV programmes, movies and music both now and in the future. This means taking effective action against online piracy and copyright infringement.

Environmental impact

We constantly work to reduce the environmental impact of our day-to-day operations. We have been focusing on tackling climate change since 2005 and in 2009 we set ten challenging targets to reduce our impact and inspire action through our programming and our partnerships.

Review of our business

continued

Improving our efficiency

Our performance against two of our targets is reproduced below and all ten targets and our performance against them can be viewed at www.sky.com/environment. Over the last year our absolute gross emissions fell by 10% despite Sky continuing to grow as a business. This represents a 31% reduction in gross CO_2e emissions per £m revenue against our 2008/09 baseline, set when we established our targets. This exceeds our target of a 25% reduction by 2020. We have cut total energy consumption (TEC) by 29% in Sky+HD boxes, effectively achieving our target.

Our performance against key environment targets

Key perfomance indicator	Target	2009/10[ii]	2010/11[ii]	2011/12[ii]
Change in total gross tonnes of CO_2e emissions per £m revenue (%)[i] [iii] [iv]	-25	-8	-21	-31
Change in total energy consumption of newly installed Sky+HD boxes (%)[v] [vi]	-30	-29	-29	-29

Notes

(i) 2011/12 data is independently assured by Deloitte LLP and can be viewed online at www.sky.com/thebiggerpicture
(ii) performance relative to base year 2008/09
(iii) target is to reduce 25% of CO_2e emissions (tonnes/£m revenue) by 2020
(iv) historic data is recalculated each year in line with the latest Guidelines to Defra/DECC's Greenhouse Gas Conversion Factors for Company Reporting and re-stated accordingly
(v) target was to reduce total energy consumption by 30% by 2012
(vi) -29% was the maximum efficiency achievable for this model of the set top box, effectively meeting our target

Our total gross CO_2e emissions[i]

Key performance indicator	Baseline	2009/10	2010/11	2011/12
Total gross CO_2e emissions (tCO_2e)[ii] [iii]	107,215	110,531	109,042	97,904

Notes

(i) 2011/12 data is independently assured by Deloitte LLP and can be viewed online at www.sky.com/thebiggerpicture
(ii) historic data is recalculated each year in line with the latest Guidelines to Defra/DECC's Greenhouse Gas Conversion Factors for Company Reporting and re-stated accordingly
(iii) tCO_2e emissions including emissions from premises and company-owned vehicles (Scope 1 and 2)

Our improvements in efficiency reflect the long-term investments we have made in our buildings, fleet and travel, and is reflected in Sky's retention of The Carbon Trust Standard and inclusion in the Carbon Disclosure Project's Leadership Index. Alongside these, we continue to reduce our reliance on fossil fuels, through our installation of on-site renewable energy. This year we commissioned our Combined Cooling Heat and Power plant and have completed construction of our wind turbine. These contribute to heating, cooling and powering Sky Studios, our broadcasting facility. The remaining electricity is purchased from renewable sources.

Our fleet is renewed regularly and as part of this we continually purchase more efficient vans. However, currently there is no viable low emissions alternative available and so our focus is on reducing the emissions within our control. To do this we have installed telematics into all our vehicles and incentivised our engineers to drive efficiently. We will continue to actively encourage the industry to develop low emission alternatives through collaboration with other businesses through membership of the UK Corporate Leaders Group on Climate Change and the Aldersgate Group. We have improved customer satisfaction through better customer service and more reliable products, also reducing engineer visits and our environmental impact.

Sky remains compliant with the environmental regulations that apply to our business and shows best practice by going beyond the minimum requirements wherever possible. We chair the EU Voluntary Agreement on energy efficiency of complex set-top boxes and we maintain a fully managed service for the return, repair and recycling of Sky's set-top boxes.

We have now realised the majority of the opportunities to reduce the absolute total emissions resulting from the day-to-day operations and we offset the remainder through the purchase of high quality carbon offsets.

As a result of meeting our targets, we have reviewed our environment strategy, setting ourselves further goals that will result in even fewer impacts, better, more sustainable products, and inspire our customers to take action on environment issues. Our new targets can be found at www.sky.com/thebiggerpicture.

Our products and services

We are also increasing our focus on helping our customers to reduce their impacts on the environment. To extend the reach and impact of auto standby on all set-top boxes, we have upgraded our software so that all inactive boxes switch to standby during the day as well as overnight. Our HD digibox further leads the way in energy efficiency with a passive standby of ½ watt.

This year we carried out an assessment of our latest set-top box to understand its environmental impact from design, build, use and end of life. This highlighted the important role we have in helping our customers save energy so, along with improving the efficiency of our set-top box, we are designing energy efficiency into the heart of all our products including our energy smart Sky Wifi Hubs which change to low power when they are not connected.

We also recognise that the media industry faces specific challenges in reducing its environmental footprint from creating new programmes. To address these, we have joined BAFTA's Albert Sustainability Working Group, creating the Albert Production Carbon Calculator alongside the BBC, ITV and a number of production companies. We are leading the way across our industry in promoting sustainable production, integrating the carbon calculator into the commissioning process of a number of our new productions.

Suppliers

Our business relies on strong relationships with a wide range of suppliers and distributors. We build productive, fair and ethical relationships with them, based on our shared drive for continuous improvement. We expect our suppliers to deliver a high-quality service and provide good value for money, as well as maintain the highest ethical standards and comply with all relevant laws and regulations.

We recognise that working with our suppliers helps us improve our performance and also helps them to improve. We continue to embed our Responsible Sourcing Principles throughout our supply chain and in 2011/12 we incorporated our Responsible Sourcing Questionnaire into our central procurement process. This helps to give us greater visibility of the social, ethical and environmental impacts of the production and supply of products and services to Sky and enables us to support our suppliers to reduce these.

We have also been working with our top 50 suppliers to help them measure and manage their carbon impact which also helps us to reduce ours. Through participating in the Carbon Disclosure Project's Supply Chain Programme 2011, we know that all our top suppliers are taking action to reduce their emissions and we are engaging with a number of them to help them with their carbon reporting. We are also working with our suppliers to embed features that save energy and use less resource into the up-front design of our core products.

Community Action

Making a positive contribution in our local communities is important to us and encouraging Sky people to get involved makes us an employer of choice. We support the growth of our local communities by offering opportunities for young people to learn about a range of careers at Sky, improving young people's skills and aspirations. Through our on the ground initiatives with our charity partners we bring our focus on environment, sport and arts to life.

Sky people are able to get involved through volunteering and making donations, maximising the reach and impact that we are able to make. This year we have worked with our core partners to actively expand our reach, reflecting changes in the regional structure of our business and ensuring we are offering opportunities for all Sky people to get involved, wherever they are based across the UK and Ireland. We have worked with new partners such as Sport Inspired, a social enterprise that aims to bring communities, and in particular young people, together through taking part in large scale community based sporting events. Since October 2011, over 400 Sky volunteers have supported 2,000 school students at these events. And over the past year, a total of 1,630 Sky people have volunteered their time to help make a difference.

Our employees can make tax-free donations to any UK registered charity of their choice directly from their salary and we give an extra 50p for every £1 donated. 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. This year an average of 797 Sky people per month gave to charities of their choice through the payroll.

INSPIRING ACTION

As a Company we Believe in Better. Using innovative technology and great content, we connect, entertain, inform and inspire our customers, our people and wider stakeholders. Through our presence in the everyday lives of millions of people in the UK and Ireland we extend our reach beyond the screen to make a positive impact on society.

We focus our work in four of the areas that we're passionate about – inspiring our people and customers to protect the environment, inspiring and improving lives through sport, inspiring and enabling creativity through the arts, and inspiring and raising the aspirations of young people in schools.

Environment

At Sky, we believe that the effect of a changing climate is one of the most important issues facing our society. We want to inspire our customers and our people to reduce their impact on the planet. We do this through Sky Rainforest Rescue, our partnership with WWF to help save a billion trees in the Amazon rainforest. By partnering with WWF, we are helping customers to do their bit to tackle tropical deforestation, the biggest contributor to global warming.

We reached our fundraising target of £2 million by June 2012, which Sky has matched pound-for-pound to a total of £4 million, well ahead of our three year target. We now have over 34,000 supporters. We are reducing current levels of deforestation in Acre, a state in Brazil, by making the forest worth more alive than dead to local communities. We have recruited over 1,000 families into the government's land voluntary certification scheme and are helping to identify new market opportunities for sustainable forest products like rubber.

Funds raised for Sky Rainforest Rescue[(i)]

Key performance indicator	Target	2009/10	2010/11	2011/12
Total donations since the launch of Sky Rainforest Rescue in 2009 (£)[(ii)]	2 million	335,000	790,000	2,000,000

Notes

(i) 2011/12 data is independently assured by Deloitte LLP and can be viewed online at www.sky.com/thebiggerpicture

(ii) cumulative year on year

Review of our business

continued

Over the year we have focused on reaching new audiences to raise the issue of deforestation We supported WWF's global initiative Earth Hour, broadcasting a weekend of dedicated environmentally-focused programming, premiering the stunning new documentary Secret Life of the Rainforest on Sky 3D, which takes viewers up close to life in the rainforest.

In November 2011, London's Somerset House launched a brand new exhibition, AMAZON in aid of Sky Rainforest Rescue, displaying images by top photographers Sebastião Salgado and Per-Anders Pettersson, which emphasised the urgent need to tackle deforestation. The exhibition also travelled to Dublin and received over 20,000 visitors.

We are also helping people to learn about environmental issues in interactive ways. Our Sky Rainforest Rescue Pod, an interactive virtual rainforest, travelled to Sky-supported UK events such as the Hay Festival and has been installed at four Forestry Commission sites. It allows visitors to learn about the people of the Amazon, their culture and livelihoods, and the threat that deforestation poses for current and future generations. We also work to guide, educate and empower 8 – 14 year old students and staff to take action to help protect precious rainforests through Sky Rainforest Rescue Schools Challenge. This interactive online programme is now in its second year with 287 schools actively participating in the challenge since it started.

In July 2011, Sky's professional cycling team, Team Sky, raised awareness of the campaign through changing their blue cycling kit to green for the 2011 Tour de France and we broadcast pro-riders talking about Sky Rainforest Rescue.

As a result of the fundraising efforts of all of our supporters, we are extending the campaign for another three years to focus on promoting sustainable alternatives to deforestation and using our position as a broadcaster and media company to drive even greater awareness in the UK and Ireland.

Sport

Sport is at the heart of what we do at Sky and we believe in its power to improve lives. We give our customers a wealth of sport on TV, online and on-the-go and the breadth of coverage goes well beyond the nation's biggest sports. That programming and investment helps to fund and promote these sports and get more people watching and playing. We also work with the governing bodies, our long-term partners, using our reach and the power of the Sky Sports brand to encourage more people to get involved.

We believe that sport has a critical role in inspiring people to make a positive change in their lives. This year we reviewed and improved Sky Sports Living for Sports, our partnership with the Youth Sports Trust to help 11 to 16 year olds build life skills and confidence. We responded to feedback from our stakeholders, introducing more athlete mentor visits and encouraging more schools to sign up through promotion on Sky Sports. As a result, there was increased demand from schools and in 2011/12, 868 schools participated, 16% above our target of 750 schools and more than twice the number for the previous year. Since 2003, we have worked with over 2,650 secondary schools and helped around 50,000 young people.

In partnership with British Cycling, we have continued to make excellent progress towards our goal of getting one million more people cycling regularly by 2013, with 688,000 new people becoming regular cyclists since the launch of our partnership in 2009.

Improving lives through cycling(i)

Key performance indicator	Target	2009/10(iii)	2010/11(iii)	2011/12(iii)
Number of new people cycling regularly by 2013(ii)	1 million	92,000	376,000	688,000

Notes
(i) 2011/12 data is independently assured by Deloitte LLP and can be viewed online at www.sky.com/thebiggerpicture
(ii) number of new people cycling on average once a month or 12 times a year as a result of Sky's initiatives
(iii) cumulative year on year

Now in its fourth year, our partnership offers a number of ways for people of all ages and abilities to get on their bikes and have fun. In 2011, we expanded our Sky Ride programme to 17 events in 14 cities, providing traffic free streets for cyclists to enjoy and attracting over 200,000 participants. We have been developing our strategy to increase the opportunities for people to get on their bikes across the UK, running 17 events in 17 cities in 2012 and connecting people with their local communities through Sky Ride Local, Breeze Bike Rides for women and through launching social cycling groups. We also saw even more Sky people get involved through our Sky staff events, ride to work schemes and on-site facilities.

The success of elite riders helps to inspire people to get involved. Since Team Sky hit the road in 2010, our professional road cycling team has gone from strength and strength as it has pursued its bold ambition to win the Tour de France and make more fans of cycling. The team's success, positive profile and attitude have been a catalyst for people of all ages to get involved. We continue to support the elite GB team – including men and women, Olympians and Paralympians - so that we contribute to maintaining Britain's outstanding record of success.

In 2011, Sky and British Cycling commissioned a report from the London School of Economics charting, for the first time, the extent of cycling's contribution to the British economy. The report shows considerable evidence of increasing participation in cycling, with events such as Sky Ride contributing. This participation also brings broad socio-economic benefits such as a £2.9 billion total contribution to the UK economy, a 28% increase in volume of cycle sales in 2010, over £500m generated in wages and £100m in taxes from 23,000 employed directly in bicycle sales, distribution and the maintenance of cycling infrastructure and health benefits saving the economy £128m per year in reducing absenteeism. The report demonstrates where cycling is now and where it has the potential to go with the right support, delivering benefits that everyone can enjoy.

In 2011, we added to our investment in sporting talent, with the announcement in November of our new Sky Sports Scholarships scheme, which supports 11 of the UK and Ireland's most exciting athletes to help them fulfil their potential on the international stage and prepare them for life in the spotlight.

We also know that the future of sport is dependent on the many people that give their time and expertise at grassroots level. We continue to support the England and Wales Cricket Board (ECB) to develop the long-term health of the game through training more coaches at all levels of the sport. Since its launch in 2006, the Sky Sports ECB Coach Education Programme has awarded over 45,000 new coaching qualifications to people who are now working across the country to develop the next generation of players.

Arts

At Sky, we believe that the arts play an essential role in the cultural life of a nation which is why Sky Arts is a leading supporter of the arts in the UK and Ireland. To do this, we make a multi-million pound investment each year to showcase the best of the arts from the UK and Ireland, and across the world, both on-screen for our customers and on the ground for everyone to enjoy.

Innovative arts partnerships are crucial to the vitality of the arts scene across the UK and Ireland. In 2011, we launched the Sky Arts Ignition Series which will see us collaborate with six arts organisations in the creation of new ground-breaking art works, projects, events and performances. For each of these chosen projects, Sky Arts provides direct investment of up to £200,000 as well as working with the arts partners to bring their projects to life through Sky's innovative technology including broadcast and online opportunities. From our first application round in 2011, we are partnering with Tate Liverpool on an exciting new public art commission by renowned contemporary artist Doug Aitken, opening in September 2012, as part of the Liverpool Biennial.

The Sky Arts Ignition: Futures Fund is designed to help emerging talent working in visual art, theatre, performance art, music, dance or literature to boost their careers as working artists. Each year, Sky Arts provides five promising young people with bursaries of £30,000 allowing them time to focus on creating a new work while also receiving mentoring from Sky to help develop their commercial skills and knowledge. Sky Arts had over 1,500 applications in the first year alone.

To help support the arts, we toured the UK and Ireland to raise awareness of our Sky Arts Ignition Series and were very encouraged by the feedback with over 65% of the arts organisations who attended agreeing that the Sky Arts Ignition Series was very beneficial for the arts industry.

We have continued our investment in books through our partnerships with four leading literary festivals, contributing to their growth and sustainability and bringing the festival experience to those unable to attend through our broadcast coverage. As well as taking the Book Show on the road, filming exclusive episodes in front of live festival audiences, we continued to offer festival goers free creative classes and inspiring performances in the Sky Arts Den. Over the year there were 77,624 visits by people at our on-the-ground activities in the Den.

Engagement with Sky Arts activities on the ground(i)

Key performance indicator	2009/10	2010/11	2011/12
Number of visits to Sky Arts activities on the ground at UK book festivals	28,348	63,142	77,624

Notes
(i) 2011/12 data is independently assured by Deloitte LLP and can be viewed online at www.sky.com/thebiggerpicture

We also want to ensure that we support and develop regional arts organisations. Since 2004 we have partnered with over 60 organisations to help promote their work to our customers and make them more accessible, offering over 1,200 low cost tickets to the public over the last two years.

Schools

This year we have had an even bigger focus on the work we do in schools to build life skills and raise aspirations over the next three years.

We are building on the work that we already do with our local primary and secondary schools in West London, Leeds and Scotland through volunteering, mentoring and offering opportunities to learn about the media through work placements. We are also using our experience in developing initiatives that we know make a difference for young people such as Sky Sports Living for Sport and Sky Rainforest Rescue Schools Challenge to create even greater opportunities.

One of the ways we will do this is through our newly constructed Sky Skills Studios which we have been working on over the past year. Opening its doors in 2012, Sky Skills Studios is a unique learning experience that helps to build life skills and raise aspirations of young people across the UK. Students age 8 to 18 will have the chance to tour our studios and then work with our state of the art technology, including broadcast quality cameras, green screens and touch screen edit tables, to make their very own television report on subjects they are studying at school.

PEOPLE

We aim to attract and select the best people and provide opportunities so that everyone can fulfill their potential. We work

Review of our business

continued

hard to create a great place to work and build an open culture that rewards and recognises good performance.

Developing our People

Our people's performance is the key driver of our growth and success. We provide many opportunities for employees to build their careers and offer a wide range of development and skills training through face to face training or through our online facility, the Sky Development Studio.

Throughout last year we carried out comprehensive training for our contact centre staff. Over 10,000 employees have been trained in a wide range of skills and over 800 managers have been through a series of management training sessions and events. We have also invested in providing an accredited training programme for our sales advisors in association with the Institute of Customer Service. On completion our employees receive a certificate in selling, compliance and customer service. The first graduation of employees was held in March.

Providing easy access and flexible development options is an ongoing priority and this year we opened our online Development Studio to our outsource contact centre partners enabling their 9,000 advisors to gain access to our e-learning suite.

The Development Studio has had 363,000 visits this year. More than 240,000 e-learning courses have been accessed via the Development Studio, up 50,000 on the last full financial year. 118,000 development days have been undertaken this year. We were pleased to win the UK E-learning award for outstanding achievement.

We have continued to build strong leadership capability of our senior team through training and the introduction of leadership surveys which provide direct feedback to managers from their teams . This year, we apportioned an element of the senior managers' annual bonus to their performance in this area. We introduced a series of "master classes" which focused on delivering Sky's Leadership behaviours and values and introduced a new programme for the most senior managers and directors in conjunction with Henley Business School. This is aimed at broadening thinking and strengthening collaboration across the Group.

Providing job opportunities for new entrants and career moves for our employees is important to us and this year we were able to provide over 2,000 completely new job opportunities over a wide range of functions but specifically in our service areas and our technology function. We have instigated more internal moves and job rotations for our existing employees to encourage the development of a broader skills base. Our regular succession planning process now focuses on increasing internal job mobility.

Investing in Future Talent and Youth

This year we increased our graduate intake by 40% with graduate placements across a range of job disciplines. In addition this year we created a "Software Academy" to build our internal pool of future talent in technology. So far we have employed over 50 technology graduates who are now making an immediate contribution to our strategic software development programmes. This year our Skygraduates.com website was recognised as the Best Employer website at the Recruitment Advertising Design awards.

Work placements offer an opportunity for Sky to contribute to the development and experience of young people, particularly those who may struggle to get into the industry. The placement programme offers a taste of what working at Sky is like. This year we increased the number of opportunities to over 500 placements. These include placements that last from 1 week to 10 months. We work in conjunction with local schools and groups that are focused on providing opportunities to those from ethnic minorities.

We have ambitious plans to improve and expand our proposition for youth employment this year to build on our success in this area and become the employer of choice for young people.

Making Sky a great place to work

Because our aim is to make Sky a great place to work, it is vital that we are in touch with what our employees think about our Company. Employee engagement is a good indicator of how our employees feel about Sky so to measure this we run a "People Survey" every year. Last year we did this through an external provider, Towers Watson, thereby allowing us to benchmark ourselves against other UK companies.

The proportion of our people participating in the survey was high (83%) compared with external benchmarks and showed a high level of employee engagement.

As well as reaching a high performance indicator for employee engagement (87%, up one point from last year on a like for like basis) compared with other blue-chip companies, we performed above the benchmark in 9 of the 13 categories we measured. We did particularly well in the categories of reward and recognition, brand and customer focus, performance and development and corporate social responsibility.

Benchmarking has also helped us prioritise activity in support of our overall employment proposition. We have also introduced "pulse" surveys every four months to allow us to monitor the organisation continuously 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"	88%
"I understand how my work contributes to Sky's business objectives"	88%
"I am willing to go the extra mile to help Sky succeed"	94%

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 elected 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.

We are always conscious that we need to give our people the right tools they need for the job. This year we've continued to invest in workplace technology to help people work more flexibly and collaborate easily with colleagues across the business. We have given people new lap-tops with software that enables video conferencing direct from the PC and have installed WiFi networks across our buildings. We continue to invest in new technology which helps everyone be more efficient in their jobs. For instance secure access to our corporate network is now significantly easier when our people are out and about.

Diversity

We recognise the importance of representing the communities around us, on and off screen. Diversity and inclusion forms one of the key pillars of our People plan. As part of the plan we have established:

- A Diversity Communications Board which is responsible for overseeing delivery against the diversity and inclusion plan
- A Company wide diversity and inclusion training and education programme
- A comprehensive review and update of our recruitment channels and processes

This year we won the Women of the Future Corporate Award 2011 and we are active in our work with a number of organisations such as Stonewall and the Creative Diversity Network. We have also developed and funded a number of programmes that aim to encourage diversity such as our work with the Mama Youth Project through which we provide paid placements with production companies to youth from underprivileged backgrounds.

Through the Diversity Communications Board we are able to unite our efforts on and off screen. This was demonstrated in the work that we did for International Women's Day 2012 where we showcased female talent on air throughout the week and hosted an internal event featuring senior female talent at Sky. The focus on diversity is beginning to have a real impact on life at Sky and we are continuing to build momentum particularly in our focus areas of female representation in senior positions and Black, Asian and Minority Ethnic representation more generally.

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.

Health, Safety & Wellbeing

The health, safety and wellbeing of all our people is 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 a priority, the long-term wellbeing of our people is equally important.

Our Occupational Health service supports our people to stay productive and healthier with a range of support and facilities to help keep people healthy. Enhancements this year include the launch of "Shift into Sports" (in conjunction with the Fitness Industry Association) which brings together a wide range of discounts and offers on gym membership and other fitness initiatives for shift-workers who may find it more difficult to access facilities due to work rotas. Sky, as the first company to participate with the FIA on a UK wide basis, played an important role in the launch of this initiative nationally.

Recognition and reward

There are a number of recognition schemes across the Company that provide us with the opportunity to reward and recognise employees who have provided exceptional customer service or have gone the extra mile in delivering their normal day to day duties. In addition, we continue to run an annual Corporate Scheme called "Believe in Better" that rewards outstanding achievement. This year the awards had a record number of nominations with over 3,000 people and around 700 teams being nominated.

This year the Free Share award that we gave staff in 2009 to celebrate Sky's 20th anniversary vested, with more than 10,500 staff receiving a share bonus worth around £700 each.

This year and last, we held "Sky Fest", a 2 day music and entertainment event for all our employees and their families. Events took place in both Osterley and Edinburgh. All the events were highly successful and approximately 20,000 people attended. This is a huge event and is a highlight of the Sky calendar.

Principal risks and uncertainties

The Group risk register is reported formally to the Audit Committee twice a year and focused risk reporting on selected themes occurs on a quarterly basis. Additional information on the Group's internal control and risk management processes is set out in the Corporate Governance Report (see page 52).

This section describes the current principal risks and uncertainties facing the Group. In addition to summarising the material risks and uncertainties, the table below gives examples of how we mitigate those risks.

The Group has a formal risk management framework embedded within the business to support the identification and effective management of risk across the Group.

The divisions within the Group are each responsible for managing and reporting risk in accordance with the Group's risk management policy and standards that have been approved by the Audit Committee. The risks are then consolidated into a Group risk register which provides an overview of the Group risk profile.

Description of risk	Mitigation
1. Market and competition: The Group operates in a highly competitive environment and faces competition from a broad range of organisations. Technological developments also have the ability to create new forms of quickly evolving competition. A failure to develop the Group's product proposition in line with changing market dynamics and expectations could erode the Group's competitive position. Great content is central to Sky's product proposition and increased competition could impact the Group's ability to acquire content that its customers want on commercially attractive terms. Economic conditions have been challenging in recent years and the future remains uncertain. A significant economic decline could impact on the Group's ability to continue to attract and retain customers.	The Group continues to make significant investments in innovation to maintain its market position. The Group's product development strategic aim is to be at the forefront of progressive technology. The current year has seen the launch of Sky Go, a significant expansion of the Group's WiFi footprint and, most recently, the announcement of the launch of NOW TV. Please see the "Review of our Business" section for further details of these products. The Group regularly reviews its pricing and packaging structures to ensure that its product proposition is appropriately placed within the market. The Group works closely with its marketing partners to ensure that the value of its offering is understood and communicated effectively to its customers. The Group makes significant investment in the origination of UK content as well as acquisition from across the world. The Group also works to develop and maintain the brand value associated with its individual channels.
2. Regulatory breach and change: The Group is subject to regulation primarily under UK, Irish and European Union legislation. The regimes which apply to the Group's business include, but are not limited to: • Gambling – Alderney Gambling Commission regulation; • Broadcasting – the Group is subject to Ofcom's licensing regime under the Broadcasting Acts 1990 and 1996 and the Communications Act 2003. These obligations include the requirement to comply with the relevant codes and directions issued by Ofcom including, for example, the Broadcasting Code, the Code on the Scheduling of Television Advertising and the Cross Promotions Code. Please see page 19 of the Business Review for further details of our UK broadcasting licences; • Platform services – as an EPG provider the Group is subject to a Continuation Notice under the Communications Act 2003 which requires the provision of EPG services to other broadcasters on fair, reasonable and non-discriminatory terms; and • Telecommunications – the Group is subject to the General Conditions of Entitlement adopted under the Communications Act 2003 which impose detailed requirements on providers of communications networks and services.	The Group manages these risks through active engagement in the regulatory processes that affect the Group's business. The Group actively seeks to identify and meet our regulatory obligations and to respond to emerging requirements. This includes, for example: • Broadcasting – compliance controls, processes and contacts are in place in Entertainment, Movies, Sports and News services. Interaction with Ofcom is co-ordinated between Compliance, Regulatory and Legal; • Platform services – processes are in place to monitor third party broadcaster access to the digital satellite platform; and • Telecommunications – compliance controls, processes and contacts are in place overseen by the Customer Compliance Committee to monitor compliance and performance against the General Conditions of Entitlement. The Group has also, more generally, appropriate oversight and reporting supported by training to provide assurance that it is compliant with regulatory requirements.

Description of risk	Mitigation
2. Regulatory breach and change *continued* The Group is also subject to generally applicable legislation including, but not limited to, competition (antitrust), consumer protection, data protection and taxation. The Group is currently, and may be in the future, subject to proceedings, and/or investigation and enquiries, from regulatory authorities. The Group's ability to operate or compete effectively could be adversely affected by the outcome of investigations or by the introduction of new laws, policies or regulations, changes in the interpretation or application of existing laws, policies and regulations, or failure to obtain required regulatory approvals or licences.	
3. Customer service: The Group's business is based on a subscription model and its future success relies on building long-term relationships with its customers. A failure to meet its customers' expectations with regards to service could negatively impact the Group's brand and competitive position.	The Group strives consistently to exceed its customer expectations, to put its customers first, to understand what they want and to be responsive to what they say. The Group makes significant investments in order to deliver continuous development and improvement to its customer service capabilities. The Group has increased and is continuing to, increase the number of contact centres located across the United Kingdom and has implemented ongoing training and development plans. The Group benchmarks its customer service experience and strives to be the best in class. Refer to page 20 for details of our customer service.
4. Technology and business interruption: The products and services that the Group provides to its customers are reliant on complex technical infrastructure. A failure in the operation of the Group's key systems or infrastructure, such as the broadcast platform, customer management systems or the telecommunications networks on which the Group relies could cause a failure of service to our customers and negatively impact our brand. Details of our infrastructure and technology are set out on pages 16-18 of the Business Review.	The Group makes significant investment in technology infrastructure to ensure that it continues to support the growth of the business. The Group is committed to achieve best in class business continuity standards and makes significant investments in the resilience and robustness of its business infrastructure. The Group also organises regular scenario based group-wide business continuity exercises to ensure ongoing readiness of key staff, systems and sites.
5. Supply chain: The Group relies on a number of third parties and outsourced suppliers operating across the globe to support its supply chain. A significant failure within the supply chain could adversely affect the Group's ability to deliver products and service to its customers.	The Group continues to invest in its supply chain infrastructure to support its business plan commitments. A robust supplier selection process is in place with appropriate ongoing management and monitoring of key partners and suppliers. The Group performs regular audits of key suppliers and of their installations and, wherever possible, has dual supply capability.

Principal risks and uncertainties

continued

Description of risk	Mitigation
6. Financial :	
The effective management of its financial exposures is central to preserving the Group's profitability. The Group has some exposure to the European financial crisis although the Group's net euro cash flows are approximately 3% of total group revenues and the Group's practice is to hold less than £10 million on deposit in euros. A number of the Group's syndicate banks are headquartered in Europe but the Group does not currently anticipate drawing the RCF.	The Group's finance teams are embedded within the business to provide support to management and to ensure accurate financial reporting and tracking of our business performance. Reporting on financial performance is provided on a monthly basis to the Executive and the Board. The Group continually invests in the improvement of its systems and processes in order to ensure sound financial management and reporting. The Group manages treasury risk by minimising risk to capital and providing appropriate protection against foreign exchange and interest rate movements. Cash investment is made in line with the Group's strict treasury policy which is approved by the Audit Committee and sets limits on deposits based on counterparty credit ratings. No more than 10% of cash deposits are held with a single bank counterparty, with the exception of overnight deposits which are invested in a spread of AAA-rated liquidity funds. All debt is swapped at inception to ensure appropriate currency and interest rate protection is in place, and trading currency risk is hedged up to 5 years in advance. The Group manages its tax risk by ensuring that all the risks are identified and understood at an early stage and that effective compliance and reporting processes are in place. The Group continues to maintain an open and proactive relationship with the regulating tax authorities which are primarily HM Revenue & Customs. The Group aims to deal with any taxation issues, wherever possible, as they arise in order to avoid unnecessary disputes.
7. Security:	
The Group must protect its customer and corporate data and the safety of its people and infrastructure as well as needing to have in place fraud prevention and detection measures. The Group is responsible to third party intellectual property owners for the security of the content that it distributes on various platforms (Sky's own and third party platforms). A significant breach of security could impact the Group's ability to operate and deliver against its business objectives.	The Group takes measures ranging from physical and logical access controls to encryption, or equivalent technologies, to manage its security risks. The Group continues to invest in new technological controls and in improving broader business process and works closely with law enforcement agencies and policy makers in order to protect its assets and to comply with its contractual obligations to third parties.
8. Projects:	
The Group invests in, and delivers, significant capital expenditure projects in order continually to drive the business forward. The failure to deliver key projects effectively and efficiently could result in significantly increased project costs and impede our ability to execute our strategic plans.	A common project management methodology is used to enable the Group to manage, monitor and control its major capital expenditure projects and strategic programmes. This includes standardised reporting and monthly reviews by Executive members. Third party partners will, where appropriate, be engaged to provide support and expertise in our large strategic programmes, complex initiatives and for emerging technologies.
9. Intellectual property protection:	
The Group in common with other service providers relies on intellectual property and other 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. Please see page 14 of the Business Review.	We implement an ongoing programme to support appropriate protections of our intellectual property and other rights.

Description of risk	Mitigation
10. People: People at Sky are critical to the Group's ability to meet the needs of its customers and achieve its goals as a business. The failure to attract or retain suitable employees across the business could limit the Group's ability to deliver its business plan commitments.	Making Sky a great place to work is central to the Group's strategy. The Group champions diversity and develops talent through a number of activities, including the Graduate program, Development Studio, an apprenticeship scheme and a leadership programme. The Group has well established channels and procedures to recruit and retain its employees and to ensure that an adequate number of suitable employees work within its customer service teams and across all its operations. Further detail on our people is set out on pages 25-27 of the Business Review.

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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 2012, this date was 1 July 2012, this being a 52 week year (fiscal year 2011: 3 July 2011, 53 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 128 and a detailed reconciliation of profit from continuing operations to adjusted profit from continuing operations is included in note 10 to the consolidated financial statements.

Overview and recent developments

During the current year, total revenue from continuing operations increased by 3% to £6,791 million, compared to the year ended 30 June 2011 ("the prior year"). Adjusted operating profit from continuing operations for the current year increased by 14% to £1,223 million, resulting in an adjusted operating profit margin of 18%, compared to 16% in the prior year. Reported operating profit from continuing operations was £1,243 million, compared to £1,073 million in the prior year.

Adjusted profit for the year from continuing operations was £875 million, generating adjusted basic earnings per share from continuing operations of 50.8 pence, compared to an adjusted profit from continuing operations of £725 million and adjusted basic earnings per share from continuing operations of 41.6 pence in the prior year. Reported profit for the year was £906 million, generating basic earnings per share of 52.6 pence, compared to a profit of £810 million and basic earnings per share of 46.5 pence in the prior year.

At 30 June 2012, the total number of TV Customers in the UK and Ireland was 10,288,000, representing a net increase of 101,000 TV Customers in the current year. Including our standalone home communications services, the total number of customers was 10,606,000 representing a net increase of 312,000 customers in the current year.

At 30 June 2012, the total number of HD customers was 4,343,000, representing 42% of total TV Customers. This represents growth in HD customers of 14% in the current year. The number of Multiroom customers also continued to grow, increasing by 152,000 in the current year to 2,402,000; 23% penetration of total TV Customers. Wholesale subscribers to the Group's channels were 4,340,000 compared to 4,382,000 in the prior year.

Churn for the current year was 10.2% which is broadly in line with the prior year (2011: 10.4%) .

Sky Broadband continues to grow strongly, increasing by 666,000 customers in the current year to 4,001,000. During the year we unbundled 388 additional exchanges, increasing our footprint to approximately 83% network coverage. The number of Sky Talk customers reached 3,768,000, representing an increase of 667,000 in the current year. The number of Line Rental customers increased by 883,000 in the current year to 3,563,000.

Corporate

The Board of Directors is proposing a final dividend of 16.2 pence per ordinary share, resulting in a total dividend for the year of 25.4 pence, representing growth of 9% over the prior year full year dividend. The ex-dividend date will be 24 October 2012 and, subject to shareholder approval at the Company's Annual General Meeting ("AGM"), the dividend will be paid on 16 November 2012 to shareholders of record on 26 October 2012.

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 £39 million was received during the year which exceeded all of the Group's direct costs associated with the proposal.

On 3 November 2011, the Group re-financed the existing £750 million Revolving Credit Facility ("RCF") with a £743 million facility due to mature on 31 October 2016, syndicated across 10 counterparty banks.

On 29 November 2011, the Company's shareholders approved a resolution at the AGM for the Company to return £750 million of capital to shareholders via a share buy-back programme.

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 is the price payable by the Company in respect of the relevant market purchases. 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.

Following approval and up to 30 June 2012, the Company repurchased for cancellation 78,387,718 ordinary shares for a total consideration of £546 million which included stamp duty and commission of £3 million. The closing share count at the end of the financial year was 1,674,454,881.

On 25 July 2012, the Board agreed to seek the necessary approvals to return a further £500 million of capital to shareholders via a share buy-back programme. Shareholder approvals will be sought at the Company's AGM on 1 November 2012. The Company has entered into an agreement with News Corporation under substantially the same terms as those agreed for the share buy-back programme approved at the Company's AGM on 29 November 2011. 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 customers (residential and commercial) including those subscribing to a TV product or a standalone home communications customer, the mix of services subscribed to and the rates charged. Revenue from the provision of pay-per-view services, which include Sky Box Office and Sky Store, is included within retail subscription revenue.

Our wholesale subscription revenue, which is 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, service calls and warranties.

Other revenue principally includes income from technical platform services, Sky Bet, third party set-top box sales and public access WiFi services.

Operating expense

Our operating expense arises from programming, direct networks, marketing, subscriber management and supply chain, transmission, technology and fixed networks 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 and sports production costs; (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 24 to the consolidated financial statements).

Under the DTH distribution agreements for the Sky Distributed Channels, we generally pay a monthly fee per subscriber for each channel, the fee in some cases being subject to periodic increases, or we pay a fixed fee or no such fee at all. A number of our distribution agreements are subject to minimum guarantees, which are linked to the proportion of the total number of 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.

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

Directors' report – Financial and operating review

continued

of satellite reception equipment and home communications equipment and installation costs of new products purchased by customers such as HD 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.

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 satellites. Transmission, technology and fixed network costs also include the costs associated with transmission, uplink, home communications connectivity costs and the costs of our new broadcasting facility, Sky Studios.

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.

2012 fiscal year compared to 2011 fiscal year

Revenue

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

	2012		2011	
For the year to 30 June	£m	%	£m	%
Retail subscription	5,593	82	5,471	83
Wholesale subscription	351	5	323	5
Advertising	440	7	458	7
Installation, hardware and service	98	1	112	1
Other	309	5	233	4
	6,791	**100**	**6,597**	**100**

To provide a more relevant presentation, management has reclassified Sky Player and Sky Mobile revenue from other revenue to retail subscription revenue of £11 million in the current period and £16 million in the comparative period.

Group revenue increased to £6,791 million (2011: £6,597 million), up 3% year on year as the growth in customers and products more than offset headwinds in advertising and Sky Business.

Retail subscription revenue increased to £5,593 million (2011: £5,471 million) as a result of strong product growth over the year and a larger customer base more than offsetting our decision to freeze subscription prices.

Wholesale subscription revenue increased by 9% to £351 million (2011: £323 million) due to increased take up of the Group's channels and their HD versions across other platforms, the launch and success of the new Formula 1 channel and new carriage deals from the first quarter of the fiscal year.

Advertising revenue was 4% lower year on year at £440 million (2011: £458 million) as a result of headwinds impacting the sector and higher payments to our partner channels for their strong performance.

Installation, hardware and service revenue of £98 million was lower year on year (2011: £112 million), the decrease reflecting improved product reliability and right-first-time installation rates, in the context of continued growth in customers and product penetration.

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

Operating expense

The Group's operating expense from continuing operations and excluding adjusting items (as detailed on page 36) can be analysed as follows:

	2012		2011	
For the year to 30 June	£m	%	£m	%
Programming	2,298	42	2,188	39
Direct networks	676	12	584	11
Marketing	1,064	19	1,220	22
Subscriber management and supply chain	621	11	596	11
Transmission, technology and fixed networks	395	7	395	7
Administration	514	9	541	10
	5,568	**100**	**5,524**	**100**

Direct Costs

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

Direct network costs increased by 16% to £676 million (2011: £584 million), with 24% growth in home communications products partially offset by our continued progress in migrating customers to our fully unbundled network, thereby reducing the per customer cost.

Other Operating Costs

Marketing costs (excluding adjusting items) were 13% lower year on year at £1,064 million (2011: £1,220 million) with lower cost route-to-market sales, less above-the-line spend and fewer gross additions. In addition to savings from the closure of the Sky customer magazine, above-the-line costs were £25 million lower year on year.

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

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

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

Operating profit and operating margin

Adjusted operating profit from continuing operations increased by 14% to £1,223 million in the current year, as a result of strong growth in subscription revenue 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 18%, compared to 16% in the prior year.

Reported operating profit from continuing operations increased by 16% to £1,243 million in the current 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 £5 million to £39 million in the current year. Included in this amount is a profit on disposal of a joint venture of £7 million, arising from the sale of our investment in Chelsea Digital Media Limited.

Investment income and finance costs

Investment income from continuing operations increased by £9 million to £18 million in the current year. This was primarily due to higher cash balances during the year, higher rates of return and the receipt of dividend income from ITV.

Finance costs from continuing operations were flat at £111 million (2011: £111 million), after the inclusion of a facility fee write-off of £5 million relating to the previous RCF. Finance costs have decreased by £5 million on an underlying basis predominantly due to reduced costs associated with the new RCF.

Finance costs from continuing operations included £19 million of non-cash fair value gains on derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness, an increase of £1 million on the prior year (2011: gain of £18 million).

Profit on disposal of available-for-sale investment

In the prior year, 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.

Taxation

The total tax charge for continuing operations for the current year of £283 million (2011: £256 million) comprises a current tax charge of £270 million (2011: £263 million) and a deferred tax charge of £13 million (2011: credit of £7 million). The higher tax charge in the current year is primarily due to increased profit.

Discontinued operations

In the prior year, 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.

Easynet represented a separate major line of business for the Group. As a result its operations were treated as discontinued for the year ended 30 June 2011. 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 in the prior year being the net proceeds of disposal less the carrying amount of Easynet's net liabilities and attributable goodwill.

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Profit for the year and earnings per share

Profit for the year from continuing operations was £906 million, compared to £758 million in the prior year. The increase in profit was primarily due to growth in subscription revenue and cost efficiencies in our operating expenditure. Profit for the year including discontinued operations was £906 million, compared to £810 million in the prior year.

The Group's earnings per share are as follows:

	2012 pence	2011 pence
Earnings per share from profit for the year		
Basic		
Continuing operations	52.6	43.5
Discontinued operations	–	3.0
Total	52.6	46.5
Diluted		
Continuing operations	52.2	43.0
Discontinued operations	–	2.9
Total	52.2	45.9

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 10 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:

	2012 pence	2011 pence
Basic	50.8	41.6
Diluted	50.4	41.1

Adjusting items

In the current year, reported operating profit from continuing operations of £1,243 million included a net benefit of £20 million. This consisted of a £31 million gain relating to the break fee from News Corporation, net of related costs, and £11 million of restructuring costs which comprise severance payments in relation to approximately 35 senior roles as part of a restructuring initiative to improve operational efficiency; both of these amounts were classified as administration costs.

In the prior 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 prior year was a credit of £41 million in relation to import duty on set-top boxes paid out in prior years.

Reported profit for the year from continuing operations also included a cost of £5 million due to writing off fees relating to the previous RCF, a gain of £7 million on the disposal of our investment in Chelsea Digital Media Limited and a gain of £19 million for 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.

In the prior year, reported profit for the year from continuing operations also included a £42 million exceptional 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, £9 million related to a profit on disposal of an available-for-sale investment and £15 million related to a non-cash tax credit for a tax settlement relating to the network operations retained from the Easynet business.

The related tax effects on the above items resulted in a £10 million charge (2011: £9 million charge).

Balance sheet

During the year, total assets increased by £155 million to £5,509 million at 30 June 2012. Non-current assets increased by £209 million to £3,234 million, primarily due to an increase of £113 million in intangible assets and property, plant and equipment and an increase of £115 million in non-current derivative financial assets resulting from mark-to-market movements on derivative instruments. This increase was partially offset by a decrease in deferred tax assets of £53 million.

Current assets decreased by £54 million to £2,275 million at 30 June 2012. This decrease was primarily due to a £177 million net decrease in cash and cash equivalents and short-term deposits, as a result of the share buy-back programme and dividend payments. This decrease was partially offset by an increase in inventories and trade and other receivables in the year.

Total liabilities increased by £246 million to £4,565 million at 30 June 2012. Current liabilities increased by £186 million to £2,098 million, primarily due to an increase in trade and other payables. Non-current liabilities increased by £60 million to £2,467 million, principally due to a £73 million increase in the fair value of the Group's non-current borrowings. This increase was partially offset by a £18 million decrease in non-current derivative financial liabilities.

Foreign exchange

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

Liquidity and capital resources

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

	As at 1 July 2011 £m	Cash movements £m	Non-cash movements £m	As at 30 June 2012 £m
Current borrowings	8	(1)	1	8
Non-current borrowings	2,325	–	73	2,398
Debt	**2,333**	**(1)**	**74**	**2,406**
Borrowings-related derivative financial instruments	(232)	–	(124)	(356)
Cash and cash equivalents	(921)	457	–	(464)
Short-term deposits	(430)	(280)	–	(710)
Net debt	**750**	**176**	**(50)**	**876**

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

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

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

Our principal source of liquidity is cash generated from operations, combined with access to a £743 million committed RCF, which expires on 31 October 2016. At 30 June 2012, this facility was undrawn (30 June 2011: undrawn).

Cash flow

Adjusted free cash flow increased by 5% to £910 million (2011: £869 million), reflecting an increase in cash generated from continuing operations, offset by increased capital expenditure.

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

Net debt as at 30 June 2012 was £876 million (2011: £750 million), with strong cash generation offset by amounts returned to shareholders via the share buy-back programme of £543 million.

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

Trends and other information

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

The total number of customers, including standalone home communications customers, was 10,606,000, an increase of 312,000 customers during the year. We expect growth in customer numbers to continue as a result of the quality, choice, reliability and value of the services that we provide.

HD customers increased by 14% in the current year, representing a penetration of total TV Customers of 42% and we expect penetration to continue to increase.

Churn for the current year was 10.2%, compared to 10.4% in the prior year. Over the medium term we expect our churn to remain broadly around this level.

The increased number of customers to our 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 was 4,340,000 compared to 4,382,000 in the prior year. Our wholesale subscribers are wholly 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 - Review of our business" on page 16).

Advertising revenue decreased in the current year due to headwinds impacting the sector and higher payments to our partner channels. In the short term, the UK television advertising sector is expected to remain volatile and challenging reflecting the continued wider economic uncertainty.

The Group's programming costs have increased in the current year reflecting our continued commitment to investing in high quality content. We expect programming costs will continue to increase and note our commitment to increase our investment in UK originated content and production.

Direct network costs increased during the current year and are expected to increase in future years. The expected increase reflects higher Sky Broadband customer numbers, the cost of operating our Sky Talk service and the growth of broadband

Directors' report – Financial and operating review

continued

services as we continue to invest in further LLU unbundling and mass migrations onto our NVN network.

Marketing costs decreased in the year as a result of fewer gross additions and lower cost route-to-market sales as a result of driving more acquisitions through online channels. We expect marketing costs to decrease as a percentage of revenue as a result of our focus on operational efficiency.

Subscriber management and supply chain costs increased largely due to the sale of set-top boxes to Sky Italia. The level of growth in both the total number of customers and the number of additional services taken by our customers (for example 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.

Administration costs decreased in the year due to a lower non-cash IFRS 2 "Share-based payment" charge and associated National Insurance costs than the prior year, as a result of the phasing or our share-incentive plans. Going forward, our aim is to hold the rate of growth in administration costs below that of revenue growth.

Off-balance sheet arrangements

At 30 June 2012, 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 £199 million (2011: £216 million) and supplied goods and services to News Corporation totalling £79 million (2011: £49 million).

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 £39 million was received during the year which exceeded all of the Group's direct costs associated with the proposal.

During the year, the Company purchased, and subsequently cancelled, 30,679,157 ordinary shares held by News Corporation as part of its share buy-back programme. For further details, see note 26 to the consolidated financial statements.

During the current year, the Group made purchases of goods and services from joint ventures and associates totalling £67 million (2011: £57 million) and supplied services to joint ventures and associates totalling £24 million (2011: £23 million).

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

Events after the reporting period

On 25 July 2012, the Board agreed to seek the necessary approvals to return a further £500 million of capital to shareholders via a share buy-back programme. For further details, see note 31 to the consolidated financial statements.

Board of Directors

Nicholas Ferguson

Chairman

Appointed to the Board: 15/06/2004
Nationality: British

Skills and experience

Extensive experience in leadership roles in the finance sector. Co-founder and instrumental in the development of Schroder Ventures (the private equity group which later became Permira) of which he served as Chairman from 1984 to 2001.

Prior to his appointment as Chairman of the Company on 3 April 2012, Mr Ferguson served as Deputy Chairman and Senior Independent Non-Executive Director.

Other appointments

Mr Ferguson has been Chairman of SVG Capital plc, a publically quoted private equity group, since April 2005 and has served as a Director of the company since 1996. His chairmanships in the not-for-profit sector include the Courtauld Institute of Art.

Thomas Mockridge

Deputy Chairman

Appointed to the Board: 10/02/2009
Nationality: New Zealander

Skills and experience

An experienced executive in both print journalism and pay television. Mr Mockridge was appointed Chief Executive Officer (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. 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.

Mr Mockridge was appointed as Deputy Chairman of the Company on 3 April 2012.

Andrew Higginson

Senior Independent Non-Executive Director

Chairman of the Corporate Governance & Nominations Committee and the Audit Committee

Appointed to the Board: 01/09/2004
Nationality: British

Skills and experience

Mr Higginson has been a Director of Tesco plc for the last 14 years, first as Finance and Strategy Director, and latterly as Chief Executive of their Retailing Services business. Mr Higginson's early career was with Unilever, Guinness, Laura Ashley and the Burton Group. Member of the 100 Group of Finance Directors.

Mr Higginson was appointed Senior Independent Non-Executive Director of the Company on 3 April 2012.

Other appointments

Mr Higginson is Chairman of Poundland Limited and a Non-Executive Director of Woolworths SA, the Rugby Football Union and Chairman designate of N Brown plc.

Jeremy Darroch

Chief Executive Officer

Appointed to the Board: 16/08/2004
Nationality: British

Skills and experience

Mr Darroch joined the Company as Chief Financial Officer (CFO) in 2004 and was appointed CEO in December 2007. Mr Darroch has extensive experience in the retailing and fast-moving consumer goods sectors. 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.

Other appointments

Mr Darroch is a Non-Executive Director and the Chairman of the Audit Committee of Marks and Spencer Group plc. He is a Board Member of the charity Youth Sport Trust and a Council Member of the Council for Industry and Higher Education.

Tracy Clarke

Independent Non-Executive Director

Appointed to the Board: 11/06/2012
Nationality: British

Skills and experience

Ms Clarke is an experienced banking and human resources professional. She is Group Head of Human Resources & Communications of Standard Chartered Bank and has spent most of her career in banking roles both in the UK and in Hong Kong. She is a member of the Institute of Financial Services.

Other appointments

Ms Clarke was a Non-Executive Director of SC First Bank in Korea from 2005–2007 and also a Non-Executive Director of eaga plc from 2007–2011, where she chaired the Remuneration Committee.

David F. DeVoe

Non-Executive Director

Appointed to the Board: 15/12/1994
Nationality: American

Skills and experience

A finance professional with extensive experience in the media sector. A director of News Corporation and its CFO since October 1990. He has served as Senior Executive Vice President of News Corporation since January 1996.

Other appointments

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. He served as a Director of Gemstar-TV Guide from 2001 to 2008 and as a Director of DIRECTV from 2003 to 2008.

Martin Gilbert

Independent Non-Executive Director

Appointed to the Board: 29/11/2011
Nationality: British

Skills and experience

Experienced finance professional and entrepreneur. Mr Gilbert is CEO of Aberdeen Asset Management PLC, the fund management group that he co-founded in 1983. Named CEO of the Year at the Business Insider/PWC Scotland PLC Awards in 2011, he is a member of the Scottish Government's Financial Services Advisory Board and the EFAMA President's Advisory Council.

Other appointments

Mr Gilbert is a director of a number of investment trusts and is Chairman of Firstgroup plc, Chairman of the Investment Committee of Chaucer Holdings PLC and Non-Executive Director of Dynmark International Limited.

Andrew Griffith

Chief Financial Officer

Appointed to the Board: 07/04/2008
Nationality: British

Skills and experience

An experienced finance professional. Mr Griffith joined the Company in 1999 and held a number of senior finance roles prior to his appointment as CFO in April 2008.

Mr Griffith joined the Company from Rothschild, the investment banking organisation, where he provided financial and strategic advice to corporate clients in the technology, media and telecommunications sector. He has a degree in law from Nottingham University and is a member of the 100 Group of Finance Directors.

James Murdoch ●

Non-Executive Director

Chairman of the Bigger Picture Committee
Appointed to the Board: 13/02/2003
Nationality: American

Skills and experience

Mr Murdoch is an experienced media executive and has held a number of senior leadership roles within News Corporation. He has been a Director of the Company since 2003 and served as Chief Executive from November 2003 until December 2007 and Chairman from December 2007 until April 2012.

Other appointments

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 2000 and 2003, he was Chairman and CEO of Star Group Limited. Mr Murdoch was a Non-Executive Director of GlaxoSmithKline plc from May 2009 to May 2012 and Sotheby's from May 2010 to May 2012.

Jacques Nasser ◎

Independent Non-Executive Director

Appointed to the Board: 08/11/2002
Nationality: Australian

Skills and experience

Extensive experience as a leading global business executive. He has served as Chairman of the Board of BHP Billiton since 2010 and was President and CEO of Ford Motor Company from 1998 to 2001. Mr Nasser graduated from RMIT University of Melbourne, Australia and has also received an honorary Doctorate of Technology.

Other appointments

Non-Executive advisory partner of One Equity Partners, the private equity arm of JPMorgan Chase and a member of the International Advisory Council of Allianz AG.

Matthieu Pigasse ○

Independent Non-Executive Director

Appointed to the Board: 29/11/2011
Nationality: French

Skills and experience

Leading investment banking professional and former civilian administrator of the French Ministry of Economy and Finance. In 2002 he joined investment banking firm Lazard. In 2009 he became Deputy CEO of Lazard in France and Vice President of Lazard in Europe. He is also the owner of the French publishing group, Les Inrockuptibles and a co-controlling shareholder of the leading newspaper publisher Le Monde and the French edition of the Huffington Post.

Other appointments

He is a board member of Groupe Lucien Barrière, Derichebourg and Relax News.

Daniel Rimer ◎ ◉

Independent Non-Executive Director

Chairman of the Remuneration Committee
Appointed to the Board: 07/04/2008
Nationality: Swiss

Skills and experience

Investment finance professional and entrepreneur with extensive experience of building investment businesses internationally. Specific sector knowledge and skills focus include internet infrastructure software and services, technology, communications, ecommerce, and media business. General Partner of the venture capital firm Index Ventures Management LLP (Index Ventures) and established the firm's London office. Prior to joining Index Ventures, he was a General Partner of The Barksdale Group.

Other appointments

Mr Rimer currently serves on a number of boards including Etsy, Inc., Flipboard, Inc., RightScale Inc., Oanda Corporation, FON Wireless Limited, and Stardoll Inc.

Arthur Siskind ◉

Non-Executive Director

Appointed to the Board: 19/11/1991
Nationality: American

Skills and experience

Highly experienced legal practitioner and member of the Bar of the State of New York since 1962. He has been 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. He was an Adjunct Professor of Law at the Cornell Law School from 2007 to 2009 and was an Adjunct Professor of Law at Georgetown University Law Center from 2005 to 2007.

Lord Wilson of Dinton ◉ ●

Independent Non-Executive Director

Appointed to the Board: 13/02/2003
Nationality: British

Skills and experience

An experienced civil servant who served in a number of UK Government Departments over a period of 36 years. He became Permanent Under Secretary of the Home Office in 1994 and Secretary of the Cabinet and Head of the Home Civil Service in 1998. Since his retirement in 2002 he has been Master of Emmanuel College, Cambridge. Lord Wilson was made a peer in 2002.

Other appointments

Non-Executive Chairman of C. Hoare and Co, Bankers.

Committee Membership

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

Corporate governance report

CHAIRMAN'S OVERVIEW

It gives me great pleasure to introduce this year's Corporate Governance Report. I would like to take this opportunity to provide you with some direct insight into the Board's views on Corporate Governance, the changes to our Board composition through the year and our focus for the coming months.

As a Board, we are the stewards of the Company. It is our responsibility to ensure that the Company's strategy is aligned to the interests of our investors and takes account of the interests of all the Company's stakeholders. As individuals, we believe that effective Corporate Governance is based on honesty, integrity and transparency, and can only be fully realised within an environment of open, robust and effective debate. This is the Board culture we foster at Sky, and it is my personal responsibility as Chairman to ensure that we continue to live this culture and promote it within our business.

Firstly, I would like to address our Board composition. Following the withdrawal of the News Corporation proposal in July 2011, the Corporate Governance & Nominations Committee has reviewed the composition of the Board and has started an orderly programme of replacing independent non-executive directors as they retire. As a result, a number of changes in Board and Committee membership have been recommended to the Board during the year. I am pleased to welcome Tracy Clarke, Martin Gilbert and Matthieu Pigasse to the Board, who have replaced Allan Leighton and David Evans who retired after the Company's 2011 AGM, and Dame Gail Rebuck who retired in June 2012. In order to clarify the roles of Board members, within our Corporate Governance Report on page 44, we have included a detailed description of the Directors' roles and responsibilities.

I took over the role of Chairman in April 2012 replacing James Murdoch, who has assumed the role of Non-Executive Director. James made a major contribution to the success of the Company during his tenure as CEO, then more recently as Chairman and going forward the Board will continue to benefit from his business insight and experience. Thomas Mockridge has assumed the role of Deputy Chairman and Andrew Higginson has taken over as Senior Independent Non-Executive Director.

It has been the Board's strategy to attract directors who complement and expand upon the skill set of the Board. We seek to appoint directors who provide diversity in background, experience and views. We recognise that gender diversity can bring a greater range of viewpoints to boardroom debate and improve board dynamics.

Our internal evaluations over the last several years, have all indicated that the Board is operating effectively. In line with Corporate Governance best practice, an external board evaluation will be undertaken during the 2012/13 financial year. In the interests of ensuring the transparency of our Board operations, we will discuss the resulting developmental themes from the evaluation processes within future reports.

During the year we have continued our work in promoting greater and more effective engagement with our shareholders. Andrew Higginson, our Executive Directors, and I have met regularly with institutional investors and analysts. Along with Daniel Rimer, Chairman of the Remuneration Committee, we will continue to engage with shareholders over the course of the coming financial year.

Nicholas Ferguson
Chairman

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code (the 'Code') provides the standard of good corporate governance 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 main principles of the Code for the whole of the year ended 30 June 2012 with the following exception. Provision C.3.1. of the Code states that the Audit Committee must be comprised of at least three Independent Non-Executive Directors. There was a period during the year between Allan Leighton's retirement from the Board and the Audit Committee on 29 November 2011 and Matthieu Pigasse's appointment as a member of the Audit Committee on 1 May 2012, that the Audit Committee's membership fell to two Independent Non-Executive Directors. The meeting of the Audit Committee held on 30 January 2012 was held prior to Mr Pigasse's appointment to the Committee. There were no other meetings held without three Independent Non-Executive Directors being present from 29 November 2011 to 1 May 2012.

This section of the Annual Report along with the Remuneration Committee's report on Directors' remuneration on pages 54 to 63 and other governance and statutory disclosures on pages 64 to 66 provide details of how the Company has applied the main principles. Further information on the Code is publicly available on the Financial Reporting Council's website www.frc.org.uk.

We believe that at the close of the financial period the Company is wholly compliant with the provisions of the Code having addressed the unintentional departure from the Code as documented above.

LEADERSHIP

Role of the Board and its Members

The Board has collective responsibility for the management, direction and performance of the Group and provides leadership within a framework of prudent and effective controls which enables risk to be appropriately assessed and managed. The Board sets the Company's strategic direction, ensuring that the necessary resources are in place for the Company to meet its objectives and deliver sustainable performance.

The Board values an effective long term outlook and sees itself as responsible to a wide range of stakeholders, whilst pursuing its objectives in a manner consistent with its statutory duties, for the benefit of the Company's members as a whole.

The Directors of the Board are selected on the criteria of proven skill and ability in their particular field of endeavour, and a diversity of outlook and experience which directly benefits the operation of the Board as the custodian of the business. A full biography of each Board member is provided on pages 40 to 41.

The Board agenda

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 roles and expectations of each Director are clearly defined and recorded within their letters of appointment or service contracts. The roles and responsibilities of the Board members are explained below.

To maintain an appropriate level of control over the day to day affairs of the Company, the following matters are subject to the determination and/or approval of the Board, and are contained within the Company's 'Schedule of Matters Reserved to the Board':

- 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 £200 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 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. In the event that a matter is required to be resolved by a vote of the Board, the matter shall be decided by a majority of votes in accordance with the Company's articles of association. The Chairman does not have a casting vote.

Board delegation

The Board has delegated specific responsibilities to Board committees, notably the Audit, Remuneration, Corporate Governance & Nominations and The Bigger Picture committees. Each committee's terms of reference can be found on the Company's corporate website. The Corporate Governance & Nominations Committee reviewed the terms of reference of each committee during the year and recommended changes to the Board. The Board is satisfied that the terms of reference of each of the committees satisfy the requirements of the Code.

The minutes of committee meetings are made available to all Board Directors on a timely basis. At each Board meeting the chairman of each committee provides the Board with a brief update of the work currently being carried out by the committee they chair.

The Board has delegated authority for the day-to-day running of the organisation to the Executive Directors. 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.

Corporate governance report
continued

ROLES AND RESPONSIBILITIES

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.

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.

Deputy Chairman
The role of the Company's Deputy Chairman is:

- to deputise for the Chairman as appropriate in his absence; and
- to provide a sounding board to Non-Executive Directors as appropriate.

Senior Independent Non-Executive Director (SID)
The role of the SID is to provide both support and a counterbalance to the position of Chairman and encompasses the following:

- to provide a sounding board to the Chairman;
- to serve as an alternative source of advice to the Chairman for the other Non-Executive Directors;
- together with the other Independent Non-Executive Directors, to evaluate the performance of the Chairman and agree development points required;
- along with the Chairman, to liaise with institutional shareholders and representative bodies during the year; and
- to assist shareholders in resolving concerns should alternative channels be inappropriate.

Non-Executive Directors
Collectively, and specifically within the remit of the Independent Non-Executive Directors, the Non-Executive Directors are responsible for the following aspects of governance of the Board:

- to scrutinise the performance of management in reaching agreed objectives and monitor reporting;
- to satisfy themselves on the integrity of financial information;
- to ensure financial controls and systems of risk management are robust and defensible;
- to determine appropriate levels of remuneration of Board members; and
- to determine the composition of the Board in respect of succession planning.

Company Secretary
The Company Secretary is responsible for the following in respect of effective Board operation:

- to ensure good information flows within the Board and its committees, between senior management and Non-Executive Directors;

- to facilitate Director induction and assisting with professional development; and
- to advise the Board through the Chairman of all corporate governance obligations and developments in best practice.

All Directors have access to the advice and services of the Company Secretary who advises on corporate governance matters, Board procedures and other relevant rules and regulations. In addition, Directors have the right to seek independent professional advice at the Company's expense.

Environment supportive of challenge

The effective operation of the Board is dependent on the inherent checks and balances within the various Board roles. As highly qualified and successful individuals in their respective fields of endeavour, all Independent Non-Executive Directors influence, debate and contribute to decisions relating to the strategy of the company, its performance and its impact on stakeholders. The Independent Non-Executive Directors are evaluated and judged on the quality and content of their contributions to Board debate and are expected to offer alternative viewpoints and challenge perceptions and decisions as appropriate.

Meetings of the Board during the year

The Board met nine 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 & Nominations	Bigger Picture
Number of meetings held in year	9	6	4	6	2
Director					–
Nicholas Ferguson(i)(ii)(vi)	8	–	4	5	–
Jeremy Darroch, CEO	9	–	–	–	–
James Murdoch(iv)(v)	8	–	–	–	2
Andrew Griffith	9	–	–	–	–
Tracy Clarke(i) (iv)(x)	1	–	–	–	–
David DeVoe(vi)	8	–	–	–	–
Martin Gilbert(i) (iii)(x)	4	1	2	–	–
Andrew Higginson(ii) (iii) (vi)	8	6	–	4	–
Thomas Mockridge(vi)(vii)	7	–	–	–	–
Jacques Nasser(i) (vi)(viii)	5	–	3	–	–
Matthieu Pigasse(iii)(x)	4	1	–	–	–
Daniel Rimer(i) (ii) (vi)(ix)	6	–	3	1	–
Arthur Siskind(ii) (vi)	8	–	–	5	–
Lord Wilson of Dinton(ii)(iv)	9	–	–	6	2
David Evans(xi)	2	–	1	–	–
Allan Leighton(xi)	2	2	–	–	–
Dame Gail Rebuck(xi)	8	6	–	–	1

Notes:

(i) Remuneration Committee member.
(ii) Corporate Governance & Nominations Committee member.
(iii) Audit Committee member.
(iv) The Bigger Picture Committee member.
(v) James Murdoch was unable to attend a Board meeting due to a prior business engagement.
(vi) On 3 April 2012 two Board meetings were held. While it was not possible to convene all directors for the first meeting, most directors were able to attend the second meeting.
(vii) Mr Mockridge was unable to attend a Board meeting due to a house move from Italy to the UK.
(viii) Jacques Nasser was unable to attend two Board meetings due to conflicting meetings of the BHP Billiton Board, of which he is Chairman. He was also travelling on the day of 3 April 2012 and so unable to attend the two meetings called at short notice on that day.
(ix) Mr Rimer could not attend one Board meeting due to a prior business commitment and was unable to attend another due to a family illness.
(x) Matthieu Pigasse, Tracy Clarke and Martin Gilbert were appointed to the Board during the year.
(xi) David Evans, Allan Leighton and Dame Gail Rebuck retired from the Board during the year.

Corporate governance report

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The Independent Non-Executive Directors held meetings without the executive directors present and the Chairman and SID held regular meetings with major shareholders during the year.

Directors & Officers' Insurance and Indemnity

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.

EFFECTIVENESS

Board composition and independence

The Board currently comprises 14 Directors, made up of two Executive Directors and 12 Non-Executive Directors. At least half of the Board of Directors are determined to be independent by the Board in accordance with provision B.1.2 of the Code. Biographies of each of the Directors are set out on pages 40 to 41 and identify those Directors who are, in the view of the Board, independent within the meaning of the Code. On appointment the Chairman met the independence criteria set out in provision B.1.1 of the Code.

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 are encouraged to challenge management and help develop proposals on strategy. Time is regularly put aside at Board meetings to discuss the strategic direction of the Company.

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.

Appointments to the Board and succession planning

The Corporate Governance & Nominations Committee keeps the Board's balance of skills, knowledge, experience and the length of service of individuals under constant review. In respect of succession planning and supplementing the skill set of the Board, there is an established procedure for the appointment of Directors. In brief, the Committee identifies the set of skills and experience required and, with the assistance of external search agencies, selects individuals to take Board positions on review of their individual merits. The process adopted by the Committee around Director recruitment is discussed in the Corporate Governance & Nominations Committee's report.

Board and committee changes during the year

On 18 October 2011, Andrew Higginson was appointed as a member of the Corporate Governance & Nominations Committee. At the Company's AGM on 29 November 2011, David Evans and Allan Leighton retired from the Board. On the same date, Martin Gilbert and Matthieu Pigasse were appointed to the Board as Independent Non-Executive Directors.

On 3 April 2012, the Company announced that James Murdoch had stepped down as Chairman and would continue to serve in his capacity as a Non-Executive Director of the Company. Nicholas Ferguson was appointed as Chairman, Thomas Mockridge was appointed as Deputy Chairman and Andrew Higginson was appointed as Senior Independent Non-Executive Director.

On 1 May 2012, Daniel Rimer replaced Nicholas Ferguson as Chairman of the Remuneration Committee. Nicholas Ferguson remains a member of the Remuneration Committee and Martin Gilbert was appointed as a member of the Committee. Matthieu Pigasse was appointed as a member of the Audit Committee. Also on 1 May 2012, Andrew Higginson replaced Lord Wilson as Chairman of the Corporate Governance & Nominations Committee. Lord Wilson remains a member of the Corporate Governance & Nominations Committee and Daniel Rimer was appointed as a member of this Committee. James Murdoch was appointed Chairman of The Bigger Picture Committee in place of Dame Gail Rebuck who stepped down as Chairman and as a member of the Committee.

On 11 June 2012, Martin Gilbert was appointed as a member of the Audit Committee. On 11 June 2012, Dame Gail Rebuck retired from the Board. On the same date, Tracy Clarke was appointed to the Board as an Independent Non-Executive Director and was also appointed as a member of the Remuneration and The Bigger Picture Committees.

Time commitment

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. All Non-Executive Directors are advised of the likely time commitments required on induction, and are expected to devote sufficient time for the effective discharge of their functions. The Company provides Non-Executive Directors with appropriate support and facilities for consideration of the Company's strategy and performance, and a dialogue with the Chairman is strongly encouraged so that any issues regarding conflicting commitments and time pressures can be addressed appropriately.

Induction & training
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. During the year, Directors have received training in relation to the Listing Rules, directors' duties and competition law compliance. They have also received presentations from a number of areas of the business including Customer Group and Sky Sports.

Information provided to the Directors
The Company Secretary is responsible for ensuring good information flows within the Board and its committees, between senior management and Non-Executive Directors. In respect of each Board and Committee meeting, Directors are provided with a tailored Board pack at least one week prior to the meeting. To improve the delivery and security of Board papers, the Company has adopted an electronic system whereby Board packs are directly loaded onto Directors' iPads. Directors regularly receive additional information from the Company between Board meetings including a monthly report updating the Directors on the performance of the Group.

Board evaluation
An evaluation of the Board is undertaken on an annual basis to ensure that governance best practice standards are achieved and upheld. This year's internal Board evaluation has focused on Board composition and succession planning and was led by the Corporate Governance & Nominations Committee with regular reporting to and input from the Board.

The evaluation framework sought views on:

- the effectiveness of the Board;
- the mix of skills and experience on the Board;
- the performance of the Board's committees.

The evaluation is ongoing whilst the Board goes through a period of replacing Board members as they retire. The Board has decided that an externally facilitated Board Evaluation will be undertaken during the 2012/13 financial year. The development themes arising from the external evaluation process will be discussed in future reports.

Directors' reappointment
In respect of Code provision B.7.1, all Executive and Non-Executive Directors will retire and offer themselves for reappointment at the 2012 AGM of the Company in compliance with the Code.

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

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

ACCOUNTABILITY
Throughout this report and, as required, through other periodic financial statements, the Board is committed to providing shareholders with a clear assessment of the Company's position and prospects. The Audit Committee has responsibility for oversight of corporate reporting, risk management and the Company's relationship with its auditor. A full description of the Audit Committee's terms of reference is included in the Audit Committee Report on pages 50 to 53.

Significant risks to the business are kept under constant review and appropriate material controls are sanctioned and employed as appropriate. The Company's principal risks and examples of how we mitigate those risks are detailed on pages 28-31.

REMUNERATION
The Board believes in adopting remuneration packages that are appropriate for attracting, retaining and motivating Directors. The Remuneration Committee's report on Directors' remuneration on pages 54 to 63 explains how remuneration packages and performance incentives are employed by the Company at Board level. The Remuneration Committee is responsible for setting the Remuneration policy for the Board and ensures that no Director is involved in decisions affecting their own remuneration.

RELATIONS WITH SHAREHOLDERS
Shareholder communications
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

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means of communication with shareholders where they have not requested hard copy documentation. The shareholder information section on pages 129 to 130 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.

Shareholder engagement

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 at investor conferences.

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 2011 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.

CORPORATE GOVERNANCE & NOMINATIONS COMMITTEE

Chairman's overview

We have had an active year, securing the appointment of three new Independent Non-Executive Directors, Martin Gilbert, Matthieu Pigasse and Tracy Clarke to succeed David Evans, Allan Leighton and Dame Gail Rebuck on their retirement from the Board. We also have a new Chairman, Nicholas Ferguson, who replaced James Murdoch in April 2012.

Our orderly programme of replacing Independent Non-Executive Directors as they retire will continue into the 2012/13 financial year as Jacques Nasser has indicated that he does not intend to stand for reappointment at the Company's 2012 AGM. It was Lord Wilson of Dinton's intention to retire at this year's AGM. However, he has agreed to stand for reappointment in order to ensure that the Board has the correct balance of Independent Non-Executive Directors during the period in which we expect his replacement to be appointed. This will ensure the Company's continued compliance with corporate governance best practice.

Succession planning is a key part of our annual programme and for each position we have reviewed the existing skill-set on the Board, specifically in terms of background, knowledge, experience and the diversity of the Board. We have balanced this with the Company's strategic direction and objectives to ensure that each appointment strengthens the Board so that it can help and challenge management to grow and take the business forward.

We have used external consultants to help us with the recruitment process and members of the Corporate Governance & Nominations ("CGN") Committee and the Chief Executive Officer have met with a number of candidates throughout the year who met the Committee's criteria. This programme will continue into the 2012/13 financial year. The CGN Committee reviewed the roles and responsibilities of Directors and the membership of the Board and its Committees and a number of changes were recommended to the Board during the year. Nicholas Ferguson has been appointed Chairman, Thomas Mockridge has been appointed as Deputy Chairman and I have been appointed as the Senior Independent Non-Executive Director.

This year's Board evaluation process has focussed on the composition of the Board and its committees and succession planning. In line with Corporate Governance best practice, the CGN Committee has decided to undertake an external board evaluation during the 2012/13 financial year which will ensure that the views of our new Independent Non-Executive Directors are captured as the Board is refreshed.

The Board as a whole welcomes the opportunity to adapt to innovations and change within the field, and is actively progressing initiatives such as addressing gender balance on the Board, sourcing the right skills to complement our talented management team, and creating robust succession plans to safeguard the Company's future performance.

Andrew Higginson
Committee Chairman

Committee membership

The CGN Committee is chaired by Andrew Higginson and its other members are Lord Wilson of Dinton, Nicholas Ferguson, Daniel Rimer and Arthur Siskind. The majority of the members of the CGN Committee are Independent Non-Executive Directors in compliance with the Code.

Changes to the membership of the Committee during the year

Lord Wilson of Dinton stepped down as Chairman of the CGN Committee on 1 May 2012 and Andrew Higginson was appointed in his place. Lord Wilson remains a member. Daniel Rimer was appointed as a member of the CGN Committee on 1 May 2012.

The role of the Committee

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.

Activities during the year

During the year, the CGN Committee reviewed the Company's Corporate Governance Memorandum which includes the terms of reference of the Board and its Committees and recommended amendments to the Board to reflect best practice. The revised terms of reference were approved by the Board and are available on the Company's corporate website.

The CGN Committee has reviewed the composition of the Board and its Committees and a formal recruitment process has been followed to identify candidates who fulfil the Board's criteria. This has been debated by the Board, and the CGN Committee and the Chief Executive Officer met with a number of potential candidates during the year. An external recruitment consultancy, JCA Group, has been used to help the CGN Committee identify possible candidates and run the recruitment process.

The CGN Committee recommended three candidates to the Board during the year, Martin Gilbert, Matthieu Pigasse and Tracy Clarke. All of these candidates have different backgrounds, experience and skill sets which will help strengthen the Board and improve its diversity.

The Board and the CGN Committee have noted the findings of the Davies Review. It is the CGN Committee's intention to increase female representation on the Board. Below Board level, women account for 22% of senior management, which is an increase from recent years reflecting the Company's focus on ensuring that women are fairly represented in leadership and management positions. During the year the Company won the Women of the Future Corporate Award 2011.

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 considered by the Board to be independent are clearly identified on pages 40 to 41. 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 Jacques Nasser had served on the Board for more than nine years and it is his intention to retire at the Company's 2012 AGM. The CGN Committee's review also took into consideration the fact that by the date of the Company's 2012 AGM Lord Wilson of Dinton will have served on the Board for more than 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 Lord Wilson of Dinton 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, his judgment.

The CGN Committee reviewed the Board's conflicts during the financial year and concluded that Directors' conflicts had been appropriately authorised and that the process for authorisation was operating effectively. The CGN Committee and the Board will continue to monitor and review potential conflicts of interest and take action to mitigate them as necessary.

THE BIGGER PICTURE COMMITTEE

Chairman's overview

We are building a sustainable business because this creates value for our customers and is critical to building long-term success. The Bigger Picture Committee provides strategic leadership for the work we do at Sky to contribute positively to society. From acting responsibly in our day-to-day operations to inspiring action across our focus areas of Environment, Sport, Arts and Schools, we make a difference in the communities where we live and work, and we give our customers and our people more reasons to join Sky and stay with us to enjoy all that we offer.

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Over the year we have continued to contribute to the UK economy, investing in the growth and success of the creative industries. We've continued to make sure our products and services can be used by everyone, managed our environmental impact, created valuable partnerships with our suppliers, and done even more to make Sky a great place to work.

We reached our £4m fundraising target for Sky Rainforest Rescue, our partnership with WWF to help save a billion trees in the Amazon rainforest, six months ahead of target. We have approved the extension of this work until 2015, and will focus on promoting sustainable alternatives to deforestation and using our position as a broadcaster and media company to drive even greater awareness in the UK and Ireland.

We have also agreed four more years of support from grassroots to elite cycling through our partnership with British Cycling, and will continue to increase participation by backing the leading riders through our support of Team Sky and inspiring the next generation to get involved. Sky is now one of the largest investors in arts on screen through the Sky Arts channels and on the ground through the Sky Arts Ignition Series which is creating new ground-breaking art works, events and performances. In February 2012 we were pleased to announce Tate Liverpool as the first of six partners and are also looking forward to seeing the work of the five talented young artists emerge over the coming year as we support them with mentoring and funding.

I am proud that for the first time we have been identified as one of eleven globally leading companies in the Publishing Media sector of the Dow Jones Sustainability Index. This recognition for what we do across Sky to make sure we contribute long-term value to society is important to us, our investors and to the markets in which we work.

Lastly, I would like to thank Dame Gail Rebuck for her leadership of The Bigger Picture Committee as it has evolved over her tenure as the Chair.

James Murdoch
Committee Chairman

Committee Membership

The Bigger Picture Committee is chaired by James Murdoch, and its other members are Tracy Clarke and Lord Wilson of Dinton.

Changes to the membership of the Committee during the year

Dame Gail Rebuck resigned as Chairman of The Bigger Picture Committee and as a member on 1 May 2012 and James Murdoch was appointed Chairman in her place. Tracy Clarke became a member of The Bigger Picture Committee following her appointment to the Board on 11 June 2012.

The role of the Committee

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;
- seeking external stakeholders' views on The Bigger Picture strategy and performance;
- reviewing and approving the annual reporting of The Bigger Picture activities;
- monitoring progress in achieving The 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 approach to being a responsible business day to day and inspiring our customers to take action to make a difference is provided in the section on 'How we do business' on pages 19 to 27 of the Directors' report – Business review.

AUDIT COMMITTEE

Chairman's overview

During the year, the Audit Committee continued to focus on the financial performance of the Company, internal audit, risk management, compliance and financial governance. The Audit Committee has a standing agenda which it reviews and works through each year.

This year the Audit Committee has received a number of presentations from the management of different operating units to improve its understanding of their operations and the risks they face and how those risks are managed.

The Audit Committee has also reviewed the Group's implementation of adequate procedures in relation to the Bribery Act 2010, received presentations from the Chairman of the Data Governance Committee and received regular reports from the Company's internal audit function and external auditor.

During the year the Company concluded a review of editorial practices at Sky News. While there had been no allegation of impropriety at Sky News, the Company undertook the review at its instigation as part of its commitment to acting responsibly across all areas of Sky's business. Reporting to the Audit Committee, the process included the review of emails of a number of key Sky News journalists by the Company's external legal advisors, Herbert Smith. The review concluded in April 2012 and found no evidence of impropriety or cause for concern. Separately, the Audit Committee undertook a review of the way in which the Company approached two separate investigations undertaken by Sky News. In each of the investigations a Sky News journalist accessed the email of individuals suspected of criminal activity. Following a thorough review of each of those cases, the Audit Committee concluded that the action was justified in the public interest and subject to proper editorial oversight.

We welcomed two new members to the Audit Committee, Martin Gilbert and Matthieu Pigasse, who both have extensive recent and relevant financial experience in the fund management and investment banking sectors. Allan Leighton, a former Chairman of the Audit Committee, and Dame Gail Rebuck retired from the Board and as members of the Audit Committee during the year and I would like to thank them both for their valued contribution to the work of the Audit Committee.

Andrew Higginson
Committee Chairman

Committee Membership
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 Matthieu Pigasse and Martin Gilbert. 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.

Changes to the membership of the Committee during the year
Allan Leighton stepped down as a member of the Audit Committee on 29 November 2011 and Dame Gail Rebuck stepped down on 11 June 2012. Matthieu Pigasse was appointed as a member of the Audit Committee on 1 May 2012 and Martin Gilbert was appointed on 11 June 2012. There was a period during the year between Allan Leighton's retirement from the Board and the Audit Committee on 29 November 2011 and Matthieu Pigasse's appointment as a member of the Audit Committee on 1 May 2012, that the Audit Committee's membership fell to two Independent Non-Executive Directors. The meeting of the Audit Committee held on 30 January 2012 was held prior to Mr Pigasse's appointment to the Committee. There were no other meetings held without three Independent Non-Executive Directors being present from 29 November 2011 to 1 May 2012.

The role of the Committee
The Chairman reports regularly to the Board on its activities. Its main 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: Audit, Risk Management and Compliance;
- 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

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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.

Activities during the year

The Audit Committee met six 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 2011/12 audit work plan;
- received regular updates on the use of non-audit services provided by the external auditor and ensured that all services and fees were approved in accordance with the Group's policy;
- reviewed the effectiveness, quality of work and independence of the external auditor; and
- approved the re-appointment, remuneration and engagement letter of the external auditor.

Risk management

- reviewed the Group's Risk Register;
- received risk presentations from various business areas; and
- approved the Group's Risk Management Policy and Standards.

Other

- reviewed quarterly security updates which include whistle-blowing;
- reviewed quarterly related party transactions reports; and
- reviewed the Group's implementation of adequate procedures in relation to the Bribery Act 2010.

The Audit Committee also received updates from the Director of Group Security, the Chairman of the Data Governance Committee and the Director of People on health and safety.

The external auditors attended five meetings of the Audit Committee during the year. The Director: Audit, Risk Management and Compliance 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. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group in accordance with the revised guidance on internal control issued by the Financial Reporting Council in October 2005. 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 2012 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, Risk Management and Compliance 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 Board 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 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 2012 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 2012, the Audit Committee has reviewed audit independence and scope of non-audit services and independence safeguards with Deloitte LLP, the Group's external auditor. As part of the review, the Audit Committee 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 6 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, quality of challenge 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.

Data Governance

The Data Governance Committee (the "DG Committee") reports to the Audit Committee. The role of the DG Committee is to ensure 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.

Directors' responsibilities

The responsibilities of the Directors are set out on page 67.

Report on Directors' remuneration

Chairman's statement

On behalf of the Board, I am pleased to present our report on Directors' remuneration for 2012, a year in which the Company has delivered another excellent performance and increased returns to shareholders. We put performance at the heart of our remuneration policy. Our objectives are to align executive interests with value creation for shareholders and to ensure that the Company can continue to retain and attract the talent that will allow it to achieve long-term success.

As a consequence, the majority of executive pay is tied to the achievement of challenging targets based on a range of measures geared to the Company's strategic goals. If those targets are met or exceeded through outstanding performance, the Company's executives will be rewarded accordingly. By the same token, any failure to achieve the Company's goals has a direct impact on executive pay.

Results for this year show that, against the continued backdrop of a challenging economic environment, the Company has generated continued strong demand from customers for its products and delivered record financial performance. As we continue to improve the quality and value that we offer, customers are choosing Sky in greater numbers and taking a growing number of products from us. Net product growth of 3.0 million took the total to 28.4 million, up by 12% year on year, including the addition of 312,000 new households. Over the last three years our total subscription product base has now grown by 61%, from 17.6 million to 28.4 million.

Strong operating results led to revenue growth of 3% despite freezing prices for customers. Combined with good discipline on costs, this has delivered double-digit growth in adjusted operating profit and the highest adjusted operating margin for six years. Earnings per share has more than doubled since 2007/8. We have also provided superior returns to shareholders, and our share price has outperformed the FTSE100 index by 4% since the proposed News Corporation offer dropped away. Cash returns to shareholders this fiscal year were £953 million.

This strong performance is reflected in the remuneration of the Executive Directors, which is designed to align their interests as strongly as possible with those of shareholders. Overall remuneration is composed of a mix of fixed pay, short-term variable pay and long-term variable pay. The ratio of fixed to variable pay is 20% : 80% which remains one of the lowest in the FTSE 100 where the average fixed to variable ratio is 35% : 65%. Over a five year period fixed pay for Executive Directors today is 7% lower in absolute terms than it was in 2007. Over the same period, base pay for employees as a whole has increased by 16.5% in absolute terms.

This year the Remuneration Committee proposed not to increase the base salaries of the CEO and CFO. Salary increases for the rest of the Company were awarded and in light of the excellent performance of the Company the average increase of 2.75% for those employees earning less than £100,000 p.a. was increased to 4%, ensuring that the largest proportion of the increase went to front line staff and junior and middle management.

It is the Committee's intention that a high proportion of total executive pay should be variable and related to performance.

To ensure that variable pay is fair and appropriate in light of the Company's overall performance, the Committee retains the discretion to adjust bonus payments either up or down. The major component of variable pay is the Long Term Incentive Plan which is determined by Company performance and shareholder returns over a three-year period. We believe this approach will continue to provide the right incentives of significant rewards for superior performance over time and promotes value creation for shareholders.

As a Committee, we are very aware of the strong interest in the subject of remuneration and, as well as taking due account of other external factors, we are committed to an ongoing dialogue with our investors. We hold an annual consultation meeting on remuneration with the Company's major shareholders and institutional investor groups which enables us to take shareholders' views fully into account when making decisions about remuneration.

During 2011/12 the Committee reviewed the remuneration arrangements for Executive Directors to ensure that they continue to meet the objectives of the Company's remuneration policy.

As part of the review of annual bonus measures it was proposed to replace customer net growth with the broader measure of product net growth. This aligns our measures to our agreed business strategy.

The Remuneration Committee have noted that the Executive Long Term Incentive Plan (LTIP) vests every two years. This differs from most other schemes which have annual vesting. The effect of this is that subject to the performance conditions having been met, there will be a significant difference in Directors' total remuneration from one year to the next. As part of its continuing review of policy, the Remuneration Committee will consider the possibility of moving to annual vesting in respect of the LTIP.

During this calendar year the Department for Business, Innovation and Skills (BIS) has made several proposals for changes to the Directors' Remuneration Reports published as part of companies' Annual Reports. The Committee discussed these proposals at length and will give further consideration to the appropriate changes in due course. To improve the presentation of this report we have made a number of changes and I trust shareholders will appreciate the new format.

Daniel Rimer
Committee Chairman

Section 1 – Remuneration Policy

1.1 Principles

In setting remuneration policy, the Committee is guided by its responsibility to shareholders, the performance of the Company and relevant external factors.

Remuneration across Sky is based on the following principles:

- We want to reward all our people **fairly and competitively** to attract and retain the calibre of individuals that will continue to deliver significant growth in value.
- Any increases in fixed pay for Executive Directors are decided in the **same way as those for all employees** and are based on the performance and experience of each individual, and the size and scope of their role.
- Executive Directors' remuneration is geared towards rewarding **challenging long-term strategic objectives and targets** and offers the opportunity to earn significant rewards for outstanding levels of performance.
- Care is taken to ensure that the overall remuneration policy **does not inadvertently encourage inappropriate risk taking** and the Committee periodically conducts a formal review of risk in the context of remuneration.
- This year, the Committee **reintroduced relative TSR** into the July 2012 LTIP awards which was omitted for the 2011 financial year due to the share price being impacted by the possible bid from News Corporation.

1.2 Structure of remuneration

Element of remuneration	How it supports the strategy	Level / opportunity	Detail
Basic salary	Takes account of each executive's experience and personal contribution	• CEO – £935,000 • CFO – £573,500	• Salaries are reviewed annually. Any changes are made from 1 July • No increases were awarded in 2012/13
Annual bonus	Drives and rewards annual performance	• CEO – up to 200% of base salary • CFO – up to 150% of base salary • An amount equivalent to up to half of the bonus can be invested in the Co-Investment Plan	Payments are based on achievement of targets, including: • Operating profit growth • Operating cash flow • Product net growth
Co-Investment Plan	Encourages executive investment and commitment. Helps retain talent	• Executive may invest an amount equivalent to up to half of their annual cash bonus in shares • The number of shares may be matched up to a maximum of 1.5 shares (on an after tax basis) for every share invested	Deferred shares are matched based on three-year compound annual EPS growth: • Below RPI +3% - no match • RPI +3% - 1 : 1 match • RPI +6% - 1.5 : 1 match • Straight line vesting in between
Long Term Incentive Plan (LTIP)	Incentivises long-term value creation, directly linking to shareholder interests. Rewards achievement of sustained EPS growth and relative TSR performance	2012/13 awards will be: • CEO - 600,000 shares • CFO - 320,000 shares	• 70% of award is based on achievement of operational targets (equally weighted on EPS, Operating cash flow, Revenue growth) • 30% of the award is based on TSR relative to the FTSE100 • Measured over three years • Vesting occurs every two years

Notes

(i) Pension and other benefits detailed in 1.4.

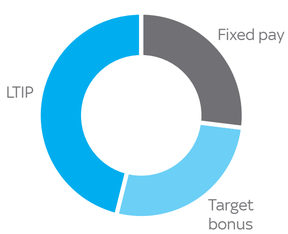
(ii) Operating profit, operating cash flow, EPS and revenue growth are generally defined as adjusted operating profit, adjusted operating cash flow, adjusted EPS and adjusted revenue growth, however the Committee will review the measures and may amend definitions at its discretion.

Report on Directors' remuneration

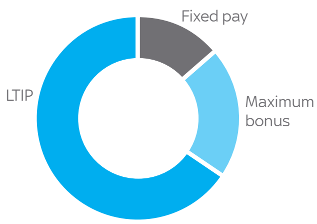
continued

REMUNERATION MIX

Target remuneration
Average of
Executive Directors



Maximum remuneration
Average of
Executive Directors



Executive Directors' remuneration at Sky has three main elements:

- Fixed pay - basic salary, pension and other benefits.
- Short-term variable pay – annual bonus with an option to invest an amount equivalent to up to half the bonus in a Co-Investment Plan.
- Long-term variable pay – the Long-Term Incentive Plan.

The Remuneration Committee believes that the majority of executive pay should be linked to performance.

1.3 Basic salary

Basic salaries of all our employees are reviewed annually. Salary awards for employees including Executive Directors, take account of Company performance, an individual's performance during the year and, if appropriate, local market conditions. For Executive Directors', salaries are benchmarked against a subset of the FTSE100 (comprising 20 relevant companies of a similar market capitalisation). No salary increases have been awarded to Executive Directors for 2013.

1.4 Pension and other benefits

The Company operates a defined contribution plan for all eligible employees, the BSkyB Pension Plan ("Pension Plan"). The Group has no legacy-defined benefit plans. Employees contribute up to 4% of pensionable salary into the Pension Plan each year and the Company matches this with a contribution of up to 8% of pensionable salary.

Individuals whose pension contributions exceed the Annual Allowance for pension tax relief are paid as a cash supplement. During the year Jeremy Darroch was given a cash supplement of £128,255, and Andrew Griffith was given a cash supplement of £37,883. For Executive Directors this contribution rate is well below market norms.

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.

Other benefits include use of a company car and private medical insurance.

1.5 Annual bonus

The annual bonus is designed to drive the achievement of annual financial and strategic business targets, and personal performance.

For 2013, the annual bonus for Executive Directors will continue to be based on three equally-weighted measures: operating profit, free cash flow and product growth. These are three of the Key Performance Indicators for Sky as detailed in Our Performance on pages 10 to 11. The bonus that may be achieved against the three measures may be adjusted up or down by the Committee based on the personal performance of each individual executive.

The maximum bonus opportunities for 2013 continue to be 200% and 150% of salary for the CEO and CFO respectively. Executive Directors and Senior Executives have the opportunity to invest an amount equivalent to up to half of their annual bonuses in return for performance-related matching shares under the Co-Investment Plan (see page 57). For 2012, actual performance against measures and the resulting payouts under the annual bonus are shown on page 58.

1.6 Long-Term Incentive Plan (LTIP)

Sky operates an LTIP for its Executive Directors and Senior Executives to incentivise and drive long-term value creation. This provides strong alignment with shareholders' interests and ensures that the entire senior management team is focused on the same goals.

Key features of the LTIP

- All awards are made at the discretion of the Remuneration Committee.
- The LTIP operates in three-year cycles, with vesting occurring every other year. The next vesting of LTIPs are due to vest at the beginning of the 2013/14 financial year.
- In the first year, participants are granted nil-cost options with vesting based on a three-year performance period. In the second year, a further award of up to 100% of the year-one award may be granted. This second tranche vests at the same time as the first.

- To provide alignment with shareholders, the grants are fixed as a number of shares rather than as a monetary value. The value of an Executive's award is therefore linked to the share price.
- To ensure an outcome that is fair to both executives and shareholders, the Committee retains discretion over any vesting in the event of change of control.

LTIP award sizes

As part of the 2012/13 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.

There was no increase made to the level of LTIP awards this year.

Conditions of vesting

The Committee regularly reviews the measures under the LTIP to ensure they remain appropriate.

For the awards that were made in 2010 and 2011 (vesting in 2013), TSR was not used as a measure as the Company's share price at the time of grant was materially impacted by the possible bid from News Corporation.

For awards made from July 2012 and any that will be made in 2013 (vesting in 2015), the relative TSR measure will be reintroduced. 70% of these awards will be based on operational targets and 30% on relative TSR.

i) Operational targets (100% weighting for 2010/2011 awards and 70% for 2012/2013 awards)

The operational performance conditions for the LTIP are EPS growth, operating cash flow and revenue growth, each of which is key to Sky's success. EPS captures our bottom line performance, operating cash flow, our ability to generate and manage cash, and revenue growth is a key measure of the success of our strategy.

2010/2011 awards

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

- For EPS, one point is awarded for growth of RPI +3% p.a., with the maximum ten points awarded for RPI +8% p.a. or more.
- For operating cash flow and revenue growth, one point is awarded for 75% achievement of target on a sliding scale up to ten points for 105% or more.
- One point equates to 10% of the award vesting, with maximum vesting for 21 points or more, with straight-line basis between these points.

This is shown in further detail in the table below:

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

2012/2013 awards

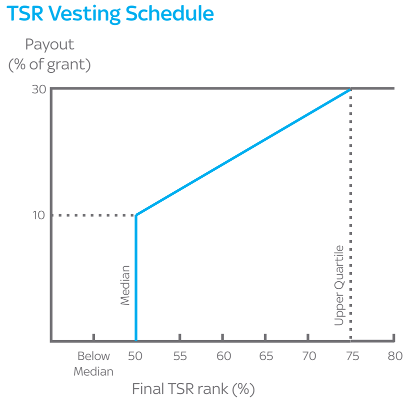
The operational performance conditions of the LTIP award for 2012/2015 are the same as the awards for 2010/2013, being EPS growth, operating cash flow and revenue growth over three years. As previously disclosed, the Company will reintroduce TSR for this scheme and 30% of the awards will vest on TSR performance. The EPS growth target for the maximum award of 10 points was set at RPI+5% p.a. (equivalent to 26% growth in earnings over three years if RPI is 3% p.a.). This level of growth in earnings was set at a level which exceeds consensus research analysts' estimates.

ii) TSR performance (30% weighting for 2012 and 2013 awards)

The Company's TSR performance is measured relative to the TSR of the constituents of the FTSE100.

If the Company's TSR performance is below median, the TSR element of the award lapses in full. For median performance, 10% of an award may vest, with 30% vesting for upper quartile performance. Vesting is on a straight-line basis, between these points as shown below.

TSR Vesting Schedule



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

TSR calculations are conducted independently by New Bridge Street, advisors to the Committee.

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

Report on Directors' remuneration

continued

1.7 Co-Investment Plan

To further encourage Executive Directors and Senior Executives to invest in the Company, the Co-Investment Plan (CIP) offers the opportunity to earn performance-related matching shares in return for their investment.

Key features of the CIP

- This helps align executives with shareholder interests by encouraging them to purchase BSkyB shares.
- Around 136 executives are invited to buy shares. 90 executives elected to do so, during the period under review, including both of the Executive Directors.
- Participants in the CIP can invest an amount equivalent to up to 50% of their annual bonus in shares (deferred for three years) and are granted a conditional matching award of shares based on the amount invested.
- Shares are matched up to a maximum of 1.5 shares : 1 share invested, and may vest depending on three-year EPS growth. One matching share is awarded for RPI +3% p.a., with 1.5 shares for RPI +6% p.a. as set out below:

EPS growth performance (annual average growth over three-year term)	**Match awarded** (number of matching shares awarded per deferred share)
Less than RPI +3%	0.0
RPI +3%	1.0
RPI +4%	1.17
RPI +5%	1.33
RPI +6%	1.5
More than RPI +6%	1.5

Straight-line interpolation between points

1.8 Other share plans

i) Management Long-Term Incentive Plan (the "Management LTIP")

The Company also operates a Management LTIP. 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.

ii) 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. Currently approximately 5,450 employees participate in these schemes.

iii) 20 Year Award Plan

A one-off grant of 100 shares was made to all employees in 2009 to celebrate Sky's 20th anniversary. These shares were delivered in February 2012. They were not subject to any further performance condition other than continued employment.

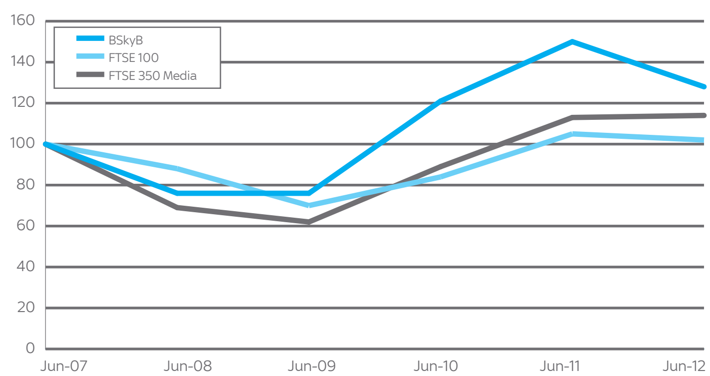
iv) Executive Share Option Schemes ("Executive Schemes")

Sky 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.

Section 2 – Performance

2.1 Performance graph

The graph below shows the Company's TSR for the five years to 30 June 2012, measured as the value of a £100 holding in ordinary shares at the start of the period. The performance is shown relative to the indices which are considered to be the most relevant.



Source: Thompson Datastream

2.2 Annual bonus

As shown on pages 10 to 11, our customer focus once again delivered strong financial results. In a difficult consumer environment, customers continue to recognise the great value we offer by choosing Sky over other providers and buying more services from us.

The targets relevant to the calculation of the annual bonus are as follows:

- Operating profit up 14% to £1,223 million.
- Operating cash flow up 11% to £1,313 million.
- Customer net growth for the year was 312,000.

Based on the Company's record results, performance against the key bonus measures and outperformance against its competition, the maximum bonus will be paid out. Therefore, the CEO and CFO received bonuses of 200% and 150% of salary respectively. Next year customer net growth will be replaced by product net growth. This will align the measures to the business strategy going forward as product net growth is now the greater proportion of the value added to the business.

2.3 LTIP

As disclosed in last year's remuneration report, the three-year performance of the Company over the 2008 to 2011 financial years resulted in the operational performance conditions being met in full and 21 points being achieved, resulting in 70% of that award vesting. The TSR performance over the three-year period ended 31 July 2011 came in the top quartile at 80.0% meaning that the full 30% of this element of the award vested, resulting in 100% total vesting of the awards. Subsequently on 31 July 2011 1,200,000 LTIP shares vested to Jeremy Darroch and 640,000 LTIP shares vested to Andrew Griffith. Outstanding awards under this plan are shown in the table on page 62.

2.4 Co-Investment Plan

The EPS performance for the Co-Investment plan exceeded the target of RPI +6% pa and the award will vest in full on 27 August 2012.

Outstanding awards under this plan are shown in the table on page 62.

Section 3 – How decisions are made

3.1 Membership of the Remuneration Committee

During the year ended 30 June 2012, the Committee, comprising the following Independent Non-Executive Directors, met four times:

- Daniel Rimer (appointed Chairman on 1 May 2012).
- Tracy Clarke (appointed a member on 11 June 2012).
- David Evans (resigned 29 November 2011).
- Nicholas Ferguson (stepped down as Chairman on 1 May 2012).
- Martin Gilbert (appointed 1 May 2012).
- Jacques Nasser.

Each member's attendance at these meetings is set out in the Corporate Governance report on page 45.

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

3.2 Advisors

New Bridge Street (an Aon Hewitt Company) (NBS) act as advisors to the Committee. They advise on all aspects of senior executive remuneration and have no other role within the Company. NBS is now wholly-owned by Aon plc 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 NBS is compromised in any way.

The fee paid to New Bridge Street for remuneration advice was £153,000.

The Chief Executive and the Director for People provide information as required. The Committee is also supported by the Company Secretary, Finance and Human Resources functions. No individuals are present nor provide any input regarding their own remuneration.

3.3 Remuneration Committee annual schedule

Date	Key agenda items
September	Committee Chairman meeting with Shareholders
October	Agree calendar for the year Review Company performance Shareholder update
January	Review the executive pay environment and governance issues including any changes in legislation Incentive plan performance update Agree comparator groups for benchmarking analysis Shareholder update
May	Review total remuneration and structure of packages against the comparator group Incentive plan performance update
June	Consider and review proposals for; – Any changes to Executive Directors' fixed pay – Achievement of bonus against Company performance – Executive and Management share awards – CEO's direct reports' total remuneration – Executive Directors' bonus targets for next financial year.
July	Review and agree: – CEO's direct reports' pay packages – Share awards for all management – Remuneration Report – Incentive plan performance outcome

Report on Directors' remuneration

continued

Section 4 – NED and Chairman fees

Non-Executive Directors' fees are reviewed annually. The current fees are set out in the table below:

Fee category (per annum)	2011 £	2012 £	2013 £
Chairman	25,000	25,000[(i)]	450,000
Deputy Chairman	25,000	40,000[(i)]	30,000
Basic fee	53,800	56,500	58,000
Committee Chairman	25,000	25,000	25,000
Committee Members	10,000	10,000	10,000
Senior Independent Director	20,000	20,000[(i)]	40,000

(i) Following the appointment of Nicholas Ferguson as Chairman of the Company the Board reviewed the fees paid to the Chairman, Deputy Chairman and Senior Independent Director. After taking independent advice it was agreed that the fees for the Chairman be increased to £450,000 effective from Nicholas Ferguson's date of appointment as Chairman on 3 April 2012. This increase reflects the time commitment and duties of the role. The Chairman's fee is inclusive of the basic fee and committee fees payable to directors. The fees of the Deputy Chairman were set at £30,000 effective from 3 April 2012 and the fees payable to the Senior Independent Director were set at £40,000 effective from 3 April 2012.

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.

Section 5 – Service Contracts and Directors' Share Interests

5.1 Service contracts Executive Directors

Executive Directors' service agreements contain a maximum notice period of one year and a non-compete provision of one year. In the event of termination, Executive Directors may be entitled to up to one year's salary and benefits. No bonus is payable in respect of the notice period not worked by the individual. In the event of termination 'for cause' salary and benefits would be payable only up to the actual date of termination.

Jeremy Darroch's initial service contract as the CFO of the Company commenced on 16 August 2004. This was revised on 7 December 2007 when he became CEO.

Any outside appointments for Executive Directors are considered by the Corporate Governance and Nominations Committee to ensure they would not cause a conflict of interest and, if not, are then approved by the Chairman on behalf of the Board. It is the Company's policy that remuneration earned from such appointments may be retained by the individual. Jeremy Darroch is a Non-Executive Director of Marks and Spencer Group plc and earned £85,000 for his appointment in the year ended 30 June 2012.

5.2 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 BSkyB 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 this 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 were:

	At 30 June 2011	At 30 June 2012
Jeremy Darroch	230,046	296,157
Nicholas Ferguson	12,239	14,966
Andrew Griffith	57,093	87,533
Andrew Higginson	4,485	5,639
Jacques Nasser	2,840	3,904
Daniel Rimer	9,876	15,836
Lord Wilson of Dinton	2,764	3,803
Martin Gilbert	–	971
Matthieu Pigasse	–	1,058

This table is audited.

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 and there have been no changes between 1 July and 25 July 2012.

During the year ended 30 June 2012, the share price traded within the range of 614.0 and 850.5 pence per share. The middle-market closing price on the last trading day of the financial year was 696.5 pence.

Section 6 (audited) – Directors' remuneration

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

	Salary and fees £	Bonus scheme £	Benefits £	Total emoluments before pension 2012 £	Employer's pensions £	Total emoluments including pension 2012 £	Total emoluments including pension 2011 £
Executive							
Jeremy Darroch	935,000	1,870,000	144,786(i)	2,949,786	33,333	2,983,119	2,788,554
Andrew Griffith	573,500	860,250	53,967(i)	1,487,717	33,333	1,521,050	1,424,259
Non-Executive							
Nicholas Ferguson (ii)	230,657	–	–	230,657		230,657	155,685
Thomas Mockridge (iii)	63,808	–	–	63,808		63,808	53,800
Andrew Higginson (iv)	113,179	–	–	113,179		113,179	99,339
Tracy Clarke (v)	4,413	–	–	4,413		4,413	–
David DeVoe	56,500	–	–	56,500		56,500	53,800
Martin Gilbert (vi)	35,611	–	–	35,611		35,611	–
James Murdoch (vii)	89,417	–	–	89,417		89,417	88,800
Jacques Nasser	67,108	–	–	67,108		67,108	74,339
Matthieu Pigasse (viii)	35,060	–	–	35,060		35,060	–
Daniel Rimer (ix)	73,167	–	–	73,167		73,167	74,339
Arthur Siskind	66,500	–	–	66,500		66,500	63,800
Lord Wilson of Dinton (x)	97,333	–	–	97,333		97,333	109,339
Dame Gail Rebuck (xi)	92,749	–	–	92,749		92,749	109,339
David Evans (xii)	28,371	–	–	28,371		28,371	74,339
Allan Leighton (xii)	25,871	–	–	25,871		25,871	53,922
Total emoluments	2,588,244	2,730,250	198,753	5,517,247	66,666	5,583,913	5,223,654

This table is audited.

Notes:

(i) Jeremy Darroch was given a pension cash supplement of £128,255 and Andrew Griffith was given a pension cash supplement of £37,883 during the financial year. See 1.4 on page 56 for further information.

(ii) Nicholas Ferguson was appointed Chairman of the Company on 3 April 2012 and stepped down as Chairman of the Remuneration Committee on 1 May 2012.

(iii) Thomas Mockridge was appointed Deputy Chairman of the Company on 3 April 2012.

(iv) Andrew Higginson was appointed Senior Independent Non-Executive Director on 3 April 2012 and Chairman of the Corporate Governance & Nominations Committee on 3 April 2012, after becoming a member of the committee on 18 October 2011.

(v) Tracy Clarke was appointed as a Director of the Company and a member of the Remuneration Committee and The Bigger Picture Committee on 11 June 2012.

(vi) Martin Gilbert was appointed as a Director of the Company on 29 November 2011, as a member of the Remuneration Committee on 1 May 2012 and as a member of the Audit Committee on 11 June 2012.

(vii) James Murdoch stepped down as Chairman of the Company on 3 April 2012 and was appointed Chairman of The Bigger Picture Committee on 1 May 2012.

(viii) Matthieu Pigasse was appointed as a Director of the Company on 29 November 2011 and as a member of the Audit Committee on 1 May 2012.

(ix) Daniel Rimer was appointed Chairman of the Remuneration Committee and a member of the Corporate Governance & Nominations Committee on 1 May 2012.

(x) Lord Wilson of Dinton stepped down as Chairman of the Corporate Governance & Nominations Committee on 1 May 2012.

(xi) Dame Gail Rebuck stepped down as Chairman and a member of The Bigger Picture Committee on 1 May 2012 and resigned as a Director of the Company on 11 June 2012.

(xii) David Evans and Allen Leighton resigned as Directors of the Company on 29 November 2011.

Report on Directors' remuneration

continued

Section 7 (audited) – Share schemes

7.1 Long Term Incentive Plan

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

	Number of shares under award						Market			
Name of Director	At 30 June 2011	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2012	Exercise price	Market price at date of exercise	Date of Award	Date from which exercisable	Expiry date
Jeremy Darroch	600,000	–	400,000	–	200,000	n/a	£6.7171	31.07.08	31.07.11	31.07.16
	600,000	–	220,000	–	380,000	n/a	£7.4587	26.08.09	31.07.11	31.07.16
	600,000	–	–	–	600,000	n/a	n/a	29.07.10	29.07.13	29.07.18
	–	900,000	–	–	900,000	n/a	n/a	29.07.11	29.07.13	29.07.18
Andrew Griffith	320,000	–	320,000	–	–	n/a	£6.7171	31.07.08	31.07.11	31.07.16
	320,000	–	80,000	–	–	n/a	£6.7171	26.08.09	31.07.11	31.07.16
		–	240,000	–	–	n/a	£6.9906	–	–	–
	320,000	–	–	–	320,000	n/a	n/a	29.07.10	29.07.13	29.07.18
	–	455,000	–	–	455,000	n/a	n/a	29.07.11	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 £8,692,338 (2011: £nil).*
- *See performance conditions for LTIP on page 57.*
- *Following the vesting of awards, participants, still employed by the Company, will have five years to exercise their shares.*

7.2 Co-Investment Plan

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

	Number of shares under award						Market			
Name of Director	At 30 June 2011	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2012	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
	–	207,729(iii)	–	–	207,729	n/a	n/a	30.08.11	30.08.14	30.08.19
Andrew Griffith	75,506(iv)	–	–	–	75,506	n/a	n/a	27.08.09	27.08.12	27.08.17
	69,672(v)	–	–	–	69,672	n/a	n/a	31.08.10	31.08.13	31.08.18
	–	95,793(vi)	–	–	95,793	n/a	n/a	30.08.11	30.08.14	30.08.19

This table is audited.

Notes:

See performance conditions for the Co-Investment Plan on page 58.

(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) Jeremy Darroch holds 66,011 shares as a match under this award.
(iv) Andrew Griffith holds 29,492 shares as a match under this award.
(v) Andrew Griffith holds 22,601 shares as a match under this award.
(vi) Andrew Griffith holds 30,440 shares as a match under this award.

7.3 Executive Share Options

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

Name of Director	At 30 June 2011	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2012	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
	Number of shares under award								
Andrew Griffith(i)	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. 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.

7.4 Sharesave Scheme Options

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

Name of Director	At 30 June 2011	Granted during the year	Exercised during the year	At 30 June 2012	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
	Number of shares under award							
Jeremy Darroch	3,591	–	–	3,591	£4.33	n/a	01.02.15	01.08.15
Andrew Griffith	2,580	–	2,580	–	£3.72	£6.885	01.02.12	01.08.12
Andrew Griffith	–	1,771	–	1,771	£5.68	n/a	01.02.15	01.08.15

This table is audited.

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

7.5 20 Year Award Plan

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

Name of Director	At 30 June 2011	Granted during the year	Exercised during the year	At 30 June 2012	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
	Number of shares under award							
Jeremy Darroch	100	–	100	–	n/a	£6.9916	05.02.12	05.04.12
Andrew Griffith	100	–	100	–	n/a	£6.9916	05.02.12	05.04.12

This table is audited.

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

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 2012 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 6
- Our performance KPIs on pages 10 to 11
- Review of our business on pages 12 to 27
- Financial and operating review on pages 32 to 38
- Principal risks and uncertainties that face the Group are described on pages 28 to 31
- Significant trends that could have a material effect on the performance of the Group are described on pages 37 to 38
- People matters and community and environmental matters are described in the How we do business section on pages 19 to 27.

Pages 4 to 66 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 our business on pages 12 to 27.

Results and dividends

The profit for the year ended 30 June 2012 was £906 million (2011: £810 million). The Directors recommend a final dividend for the year ended 30 June 2012 of 16.20 pence per ordinary share which, together with the interim dividend of 9.20 pence paid to shareholders on 24 April 2012, will make a total dividend for the year of 25.40 pence (2011: 23.28 pence). Subject to approval at the AGM, the final dividend will be paid on 16 November 2012 to shareholders appearing on the register at the close of business on 26 October 2012.

Share capital

The Company's issued ordinary share capital at 30 June 2012 comprised one class of ordinary shares. All of the issued ordinary shares are fully paid and rank equally in all respects. Further details of the Company's share capital is disclosed in notes 25 and 26 to the consolidated financial statements.

Interests in voting rights

Information provided to the Company pursuant to the UK Listing Authority's Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website. As at 25 July 2012, 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)	654,974,065	39.14
Capital Research and Management Company(ii)	90,751,601	5.18
BlackRock, Inc.(ii)	88,682,765	5.06
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 25 July 2012, 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, although, as stated above, Rupert Murdoch disclaims beneficial ownership of the shares of News Corporation beneficially owned by the Murdoch Family Trust.

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 2012, the ESOP had an interest in 16,293,345 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 2011 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 provide the Directors' with an authority to allot relevant securities up to a nominal amount of £273,000,000 will be proposed at the 2012 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 £41,000,000.

On 29 November 2011, at the Company's AGM, the Board was granted the authority to return £750 million of capital to shareholders via a share buy-back programme. This authority was subject to an agreement between the Company and News UK Nominees Limited (and others) dated 28 July 2011 whereby following any market purchases of shares by the Company, News Corporation would 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 would be the price payable by the Company in respect of the relevant market purchases.

On 25 July 2012, the Board agreed to seek the necessary approvals to return a further £500 million of capital to shareholders via a share buy-back programme. Shareholder approvals will be sought at the Company's AGM on 1 November 2012. 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 40 to 41.

The Directors' interests in the ordinary shares and options of the Company are disclosed within the report on Directors' remuneration on pages 60 to 66.

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. At the Company's 2012 AGM all current Executive and Non-Executive Directors will retire. It is the intention that Jacques Nasser 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.

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 revoking the appointment. An Alternate Director shall not be entitled to fees for his service as an Alternate Director.

Other governance and statutory disclosures

continued

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

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 18 and 19.

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 2012 (2011: below 45 days), based on the total amount invoiced by non-programme trade suppliers during the year ended 30 June 2012. 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 (2011: 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 24 to the consolidated financial statements.

Charitable contributions and community and environmental activities

During the financial year, Sky contributed £5,208,632 to charities for the purpose of supporting Bigger Picture activities focusing on responsibility, environment, sport, arts and cycling. These contributions were made to Sky's key charity partners Youth Sports Trust, British Cycling, WWF, Global Action Plan and the Hay, Cheltenham, Bath and Brighton literature festivals. We also made contributions to charities through our employee matched fundraising and payroll giving activities and our volunteering initiatives.

An overview of how Sky makes a positive difference to UK and Irish society through its Bigger Picture programme is provided in the section on "How we do business" on pages 19 to 27 of the Directors' report – Business review. In addition Sky will publish an in-depth summary of its Bigger Picture activities in September 2012 and in this will outline Sky's total community investment using the London Benchmarking Group model.

Additional information can be found at www.sky.com/thebiggerpicture.

Political contributions

Political contributions of the Group in the UK during 2012 amounted to nil (2011: nil).

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 12 to 27. The financial position of the Group, its cash flows and liquidity position are described in the financial and operating review on pages 32 to 38. In addition, notes 22, 23 and 24 to the consolidated financial statements include details of the Group's treasury activities, long term funding arrangements, financial instruments and hedging activities and exposure to financial risk.

As set out above, the Group has sufficient financial resources which, together with internally generated cash flows, will continue to provide sufficient sources of liquidity to fund its current operations, including its contractual and commercial commitments as set out on pages 111 to 112, 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 1 November 2012 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
25 July 2012

Statement of Directors' responsibilities

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
25 July 2012

Andrew Griffith
Chief Financial Officer
25 July 2012

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 2012 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 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 2012 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 66;
- 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

25 July 2012

Consolidated financial statements

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2012

	Notes	2012 £m	2011 £m
Continuing operations			
Revenue	2	**6,791**	**6,597**
Operating expense	3	(5,548)	(5,524)
Operating profit		**1,243**	**1,073**
Share of results of joint ventures and associates	15	39	34
Investment income	4	18	9
Finance costs	4	(111)	(111)
Profit on disposal of available-for-sale investment	5	–	9
Profit before tax	6	**1,189**	**1,014**
Taxation	8	(283)	(256)
Profit for the year from continuing operations		**906**	**758**
Discontinued operations			
Profit for the year from discontinued operations	9	–	52
Profit for the year attributable to equity shareholders of the parent company		**906**	**810**
Earnings per share from profit for the year (in pence)			
Basic			
Continuing operations	10	52.6p	43.5p
Discontinued operations	10	–	3.0p
Total	10	52.6p	46.5p
Diluted			
Continuing operations	10	52.2p	43.0p
Discontinued operations	10	–	2.9p
Total	10	52.2p	45.9p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2012

	2012 £m	2011 £m
Profit for the year attributable to equity shareholders of the parent company	**906**	**810**
Other comprehensive income		
Amounts recognised directly in equity		
Exchange differences on translation of foreign operations	2	(8)
Gain on revaluation of available-for-sale investments	8	59
Gain (loss) on cash flow hedges	99	(130)
Tax on cash flow hedges	(23)	36
	86	(43)
Amounts reclassified and reported in the income statement		
(Loss) gain on cash flow hedges	(29)	42
Tax on cash flow hedges	7	(11)
Transfer to income statement on disposal of foreign operations	–	4
	(22)	35
Other comprehensive income (loss) for the year (net of tax)	**64**	**(8)**
Total comprehensive income for the year attributable to equity shareholders of the parent company	**970**	**802**

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

CONSOLIDATED BALANCE SHEET

as at 30 June 2012

	Notes	2012 £m	2011 £m
Non-current assets			
Goodwill	12	956	944
Intangible assets	13	523	462
Property, plant and equipment	14	948	896
Investments in joint ventures and associates	15	156	151
Available-for-sale investments	16	228	215
Deferred tax assets	17	16	69
Trade and other receivables	19	17	13
Derivative financial assets	23	390	275
		3,234	3,025
Current assets			
Inventories	18	456	375
Trade and other receivables	19	621	592
Short-term deposits	23	710	430
Cash and cash equivalents	23	464	921
Derivative financial assets	23	24	11
		2,275	2,329
Total assets		**5,509**	**5,354**
Current liabilities			
Borrowings	22	8	8
Trade and other payables	20	1,855	1,675
Current tax liabilities		189	187
Provisions	21	43	21
Derivative financial liabilities	23	3	21
		2,098	1,912
Non-current liabilities			
Borrowings	22	2,398	2,325
Trade and other payables	20	27	26
Provisions	21	12	9
Derivative financial liabilities	23	29	47
Deferred tax liabilities	17	1	–
		2,467	2,407
Total liabilities		**4,565**	**4,319**
Share capital	25	837	876
Share premium	26	1,437	1,437
Reserves	26	(1,330)	(1,278)
Total equity attributable to equity shareholders of the parent company	26	**944**	**1,035**
Total liabilities and shareholders' equity		**5,509**	**5,354**

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 25 July 2012 and were signed on its behalf by:

Jeremy Darroch
Chief Executive Officer

Andrew Griffith
Chief Financial Officer

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 2012

	Notes	2012 £m	2011 £m
Continuing operations			
Cash flows from operating activities			
Cash generated from operations	27	1,737	1,569
Interest received		17	7
Taxation paid		(254)	(219)
Net cash from operating activities		**1,500**	**1,357**
Cash flows from investing activities			
Dividends received from joint ventures and associates		39	29
Net funding to joint ventures and associates		(6)	(4)
Proceeds on disposal of investments		–	32
Purchase of property, plant and equipment		(228)	(197)
Purchase of intangible assets		(229)	(226)
Purchase of subsidiaries (net of cash and cash equivalents purchased)		(15)	(222)
Purchase of available-for-sale investments		(5)	–
Increase in short-term deposits		(280)	(30)
Net cash used in investing activities		**(724)**	**(618)**
Cash flows from financing activities			
Repayment of obligations under finance leases		(1)	(1)
Proceeds from disposal of shares in Employee Share Ownership Plan ("ESOP")		10	32
Purchase of own shares for ESOP		(161)	(90)
Purchase of own shares for cancellation		(546)	–
Interest paid		(125)	(124)
Dividends paid to shareholders		(410)	(353)
Net cash used in financing activities		**(1,233)**	**(536)**
Net (decrease) increase in cash and cash equivalents from continuing operations		**(457)**	**203**
Cash generated from discontinued operations	9	–	69
Cash and cash equivalents at the beginning of the year		921	649
Cash and cash equivalents at the end of the year		**464**	**921**

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 2012

	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' equity £m
At 1 July 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 investments	–	–	–	–	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**
Profit for the year	–	–	–	–	–	–	906	906
Exchange differences on translation of foreign operations	–	–	–	–	–	2	–	2
Revaluation of available-for-sale investments	–	–	–	–	8	–	–	8
Recognition and transfer of cash flow hedges	–	–	–	70	–	–	–	70
Tax on items taken directly to equity	–	–	–	(16)	–	–	–	(16)
Total comprehensive income for the year	**–**	**–**	**–**	**54**	**8**	**2**	**906**	**970**
Share-based payment	–	–	(5)	–	–	–	(80)	(85)
Tax on items taken directly to equity	–	–	–	–	–	–	(10)	(10)
Share buy-back programme (see note 26):								
– Purchase of own shares for cancellation	(39)	–	–	–	–	39	(546)	(546)
– Financial liability for close period purchases	–	–	–	–	–	–	(10)	(10)
Dividends	–	–	–	–	–	–	(410)	(410)
At 30 June 2012	**837**	**1,437**	**(112)**	**68**	**165**	**399**	**(1,850)**	**944**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting policies

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

a) Statement of compliance

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

b) Basis of preparation

The consolidated financial statements have been prepared on a going concern basis (as set out in the Directors' Report) and on an historical cost basis, except for the remeasurement to fair value of financial instruments as described in the accounting policies below. The Group 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 2012, this date was 1 July 2012, this being a 52 week year (fiscal year 2011: 3 July 2011, 53 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

1. Accounting policies *continued*

to plan or design new or substantially improved products for 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 1 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 28). Payments made upon receipt of commissioned and acquired programming, but in advance of the legal right to broadcast the programmes, are treated as prepayments.

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

1. Accounting policies *continued*

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".

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 will 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 TV 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 cable and other retailers and is based on the number of subscribers taking the Sky channels, as reported to the Group by the cable and other 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 technical platform services, Sky Bet, third party set-top box sales and public access WiFi services. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

1. Accounting policies *continued*

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

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

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

o) Leases

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

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

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

Lease payments are apportioned between finance charges and reductions of the 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 2012 or later periods. These new pronouncements are listed below:

- Amendments to IAS 12 "Income Taxes: Deferred Tax – Recovery of Underlying Assets" (effective 1 January 2012)
- Amendments to IAS 1 "Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income" (effective 1 July 2012)
- 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)
- Amendment to IAS 19 "Employee Benefits" (effective 1 January 2013)
- Amendment to IAS 27 "Separate Financial Statements" (effective 1 January 2013)
- Amendment to IAS 28 "Investments in Associates and Joint Ventures" (effective 1 January 2013)
- Amendments to IFRS 7 "Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities" (effective 1 January 2013)
- Annual Improvements 2009–2011 Cycle (effective 1 January 2013)
- Amendments to IAS 32 "Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities" (effective 1 January 2014)
- IFRS 9 "Financial Instruments" (effective 1 January 2015)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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1. Accounting policies *continued*

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 8)

- The Group's tax charge is the sum of the total current and deferred tax charges. The calculation of the Group's total tax charge necessarily involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process.

- Accruals for tax contingencies require management to make judgments and estimates in relation to tax audit issues and exposures. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Tax benefits are not recognised unless it is probable that the tax positions will be sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of the likely resolution of the issue through negotiation and/or litigation.

- The amounts recognised in the consolidated financial statements in respect of each matter are derived from the Group's best estimation and judgment, as described above. However, the inherent uncertainty regarding the outcome of these items means the eventual resolution could differ from the provision and in such event the Group would be required to make an adjustment in a subsequent period which could have a material impact on the Group's profit and loss and/or cash position.

iii. Goodwill (see note 12)

- Judgment is required in determining the fair value of identifiable assets, liabilities and contingent 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 13 and 14)

- The assessment of the useful economic lives of these assets requires judgment. Depreciation and amortisation is charged to the income statement based on the useful economic life selected. This assessment requires estimation of the period over which the Group will benefit from the assets.

- Determining whether the carrying amount of these assets has any indication of impairment also requires judgment. If an indication of impairment is identified, further judgment is required to assess whether the carrying amount can be supported by the net present value of future cash flows forecast to be derived from the asset. This forecast involves cash flow projections and selecting the appropriate discount rate.

- Assessing whether assets meet the required criteria for initial capitalisation requires judgment. This requires a determination of whether the assets will result in future benefits to the Group. In particular, internally generated intangible assets must be assessed during the development phase to identify whether the Group has the ability and intention to complete the development successfully.

v. Deferred tax (see note 17)

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

vi. Programming inventory (see note 18)

- The Group has several main types of programming inventory: Sport, News, Movies and General entertainment, as detailed in accounting policy (g)(i).

- The cost of acquired Sport and News rights is recognised in the income statement on first broadcast or, where Sports rights are for multiple seasons or competitions, Sports rights are amortised on a straight-line basis across the 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.

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2. Revenue

	2012 £m	2011 £m
Continuing operations		
Retail subscription	5,593	5,471
Wholesale subscription	351	323
Advertising	440	458
Installation, hardware and service	98	112
Other	309	233
	6,791	**6,597**

To provide a more relevant presentation, management has reclassified Sky Player and Sky Mobile revenue of £11 million in the current period and £16 million in the comparative period from other revenue to retail subscription revenue.

Revenue from continuing operations arises from goods and services provided to the UK, with the exception of £418 million (2011: £422 million) which arises from services provided to other countries.

3. Operating expense

	2012 £m	2011 £m
Continuing operations		
Programming	2,298	2,188
Direct networks	676	584
Marketing(ii)	1,064	1,179
Subscriber management and supply chain	621	596
Transmission, technology and fixed networks	395	395
Administration(i)	494	582
	5,548	**5,524**

(i) Included within administration costs for the year ended 30 June 2012 is a credit of £31 million in relation to the News Corporation proposal consisting of costs incurred offset by the receipt of the break fee (see note 30). Also included are restructuring costs of £11 million which comprise severance payments in relation to approximately 35 senior roles as part of a restructuring initiative to improve operational efficiency. 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 the refund of import duty on set-top boxes paid out in prior years.

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4. Investment income and finance costs

	2012 £m	2011 £m
Investment income		
Cash, cash equivalents and short-term deposits	14	9
Dividends received from available-for-sale investments	4	–
	18	**9**

	2012 £m	2011 £m
Finance costs		
– Interest payable and similar charges		
£743 million/£750 million Revolving Credit Facilities ("RCF")(i)	(8)	(6)
Guaranteed Notes (see note 22)	(115)	(116)
Finance lease interest	(7)	(7)
	(130)	**(129)**
– Other finance income (expense)		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	20	17
Remeasurement of other derivative financial instruments (not qualifying for hedge accounting)	–	(2)
Gain (loss) arising on derivatives in a designated fair value hedge accounting relationship	47	(4)
(Loss) gain arising on adjustment for hedged item in a designated fair value hedge accounting relationship	(48)	7
	19	**18**
	(111)	**(111)**

(i) Included in RCF costs for the year ended 30 June 2012 is a write-off of £5 million relating to the facility fee on the £750 million RCF which has now been replaced with the £743 million RCF (see note 22).

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 5.4% (2011: 5.3%) to expenditure on such assets. The amount capitalised in the current year amounted to £1 million (2011: less than £1 million).

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

In the prior year, 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.

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6. Profit before taxation

Profit before taxation is stated after charging:

	Continuing operations £m	Discontinued operations £m	Total £m
Year ended 30 June 2012			
Cost of inventories recognised as an expense	1,854	–	1,854
Depreciation and impairment of property, plant and equipment	179	–	179
Amortisation and impairment of intangible assets	165	–	165
Rentals on operating leases and similar arrangements	50	–	50
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

Consolidated non-current assets outside the UK were £2 million (2011: £2 million).

Foreign exchange

Foreign exchange gains recognised in the income statement during the year amounted to £2 million (2011: losses of less than £1 million).

Audit fees

An analysis of auditor's remuneration is as follows:

	2012 £m	2011 £m
Total audit fees	1	1
Total non-audit fees	1	1
Total auditor remuneration	**2**	**2**

Fees payable to the Company's auditor for the audit of the Company's annual accounts were £1.1 million (2011: £0.9 million) and fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation were £0.3 million (2011: £0.4 million).

Amounts paid to the auditor for non-audit fees include audit related services of £0.3 million (2011: £0.3 million), taxation services of £0.3 million (2011: nil), other assurance services of £0.1 million (2011: £0.1 million), other advisory services of £0.1 million (2011: nil) and transaction services of nil (2011: £0.4 million).

7. Employee benefits and key management compensation

a) Group employee benefits

	2012 £m	2011 £m
Wages and salaries	687	651
Social security costs	78	80
Costs of employee share option schemes(i)	66	67
Contributions to the Group's pension schemes(ii)	26	27
	857	**825**

(i) A £66 million charge relates to equity-settled share-based payments (2011: £69 million charge). There were no charges relating to cash-settled share-based payments (2011: £2 million credit).

(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 2012 was £5 million (2011: £4 million).

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

	2012 Number	2011 Number
Channels and services	2,466	2,498
Customer service, sales and marketing	11,087	9,440
Transmission and technology	3,204	2,753
Management and administration	1,180	1,315
	17,937	**16,006**

There are approximately 506 (2011: 446) temporary staff included within the average number of full-time equivalent persons employed by the Group.

b) Key management compensation (see note 30d)

	2012 £m	2011 £m
Short-term employee benefits	6	5
Share-based payments	7	6
	13	**11**

Post-employment benefits were less than £1 million (2011: less than £1 million). The amounts disclosed for key management compensation are included within the disclosures in note 7(a).

8. Taxation

a) Taxation recognised in the income statement

	2012 £m	2011 £m
Current tax expense		
Current year	303	386
Adjustment in respect of prior years	(33)	(115)
Total current tax charge	**270**	**271**
Deferred tax expense		
Origination and reversal of temporary differences	6	(17)
Adjustment in respect of prior years	7	10
Total deferred tax charge (credit)	**13**	**(7)**
Taxation	**283**	**264**
Continuing operations	283	256
Discontinued operations (see note 9)	–	8
	283	**264**

Taxation relates to a £283 million UK corporation tax charge (2011: £264 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. Taxation *continued*

b) Taxation recognised directly in equity

	2012 £m	2011 £m
Current tax (credit) relating to share-based payments	(14)	(2)
Deferred tax charge (credit) relating to share-based payments	24	(17)
Deferred tax charge (credit) relating to cash flow hedges	16	(25)
	26	**(44)**

c) Reconciliation of effective tax rate

The tax expense for the year is lower (2011: lower) than the expense that would have been charged using the standard rate of corporation tax in the UK (25.5%) applied to profit before tax. The applicable enacted or substantively enacted effective rate of UK corporation tax for the year was 25.5% (2011: 27.5%). The differences are explained below:

	2012 £m	2011 £m
Profit before tax:		
– Continuing operations	1,189	1,014
– Discontinued operations	–	60
	1,189	**1,074**
Profit before tax multiplied by standard rate of corporation tax in the UK of 25.5% (2011: 27.5%)	303	295
Effects of:		
Non-deductible expense	3	83
Deferred tax write-off following tax rate change	2	2
Tax attributed to discontinued operations	–	8
Tax exempt gain on discontinued operations	–	(17)
Tax exempt gain on disposal of available-for-sale investments[(ii)]	–	(2)
Over provision in respect of prior years[(i)]	(25)	(105)
Taxation	**283**	**264**

(i) This includes the tax effect of agreeing a number of historic issues with HMRC resulting in a credit to the prior 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 investment in Shine for the year ended 30 June 2011, see note 5.

9. 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 were treated as discontinued for the year ended 30 June 2011. 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 were included in the consolidated income statement for the year ended 30 June 2011, were as follows:

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

(i) Amounts include the results of discontinued operations up to the date of disposal (1 September 2010).
(ii) Attributable tax expense comprises nil in respect of operating activities and £8 million arising as a result of the disposal.

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 ended 30 June 2011, cash flows attributable to Easynet comprised a net operating cash outflow of £7 million and a net cash inflow in respect of investing activities of £76 million.

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10. Earnings per share

The weighted average number of shares for the year was:

	2012 Millions of shares	2011 Millions of shares
Ordinary shares	1,731	1,753
ESOP trust ordinary shares	(10)	(10)
Basic shares	**1,721**	**1,743**
Dilutive ordinary shares from share options	16	20
Diluted shares	**1,737**	**1,763**

The calculation of diluted earnings per share excludes less than 1 million share options (2011: 2 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.

	2012 £m	2011 £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	906	758
(Net recovery of) costs in relation to News Corporation proposal (see note 3)	(31)	15
Costs relating to restructuring exercise (see note 3)	11	–
Living TV restructuring costs (see note 3)	–	26
Recovery of import duty on set-top boxes (see note 3)	–	(41)
RCF fee write-off (see note 4)	5	–
Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness (see note 4)	(19)	(18)
Profit on disposal of joint venture (see note 15)	(7)	–
Profit on disposal of available-for-sale investment (see note 5)	–	(9)
Tax credit on settlement of liability(i)	–	(15)
Tax effect of above items	10	9
Adjusted profit for the year from continuing operations	**875**	**725**

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

	2012 pence	2011 pence
Earnings per share from profit for the year		
Basic		
Continuing operations	52.6p	43.5p
Discontinued operations	–	3.0p
Total	52.6p	46.5 p
Diluted		
Continuing operations	52.2p	43.0p
Discontinued operations	–	2.9p
Total	52.2p	45.9p
Adjusted earnings per share from adjusted profit for the year from continuing operations		
Basic	50.8p	41.6p
Diluted	50.4p	41.1p

11. Dividends

	2012 £m	2011 £m
Dividends declared and paid during the year		
2010 Final dividend paid: 11.525p per ordinary share	–	201
2011 Interim dividend paid: 8.74p per ordinary share	–	152
2011 Final dividend paid: 14.54p per ordinary share	253	–
2012 Interim dividend paid: 9.20p per ordinary share	157	–
	410	**353**

The 2012 final dividend proposed is 16.20 pence per ordinary share being £269 million. The dividend was not declared at the balance sheet date and is therefore not recognised as a liability as at 30 June 2012.

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.

12. Goodwill

	£m
Carrying value	
At 1 July 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**
Purchase of Acetrax AG ("Acetrax")	12
At 30 June 2012	**956**

Goodwill has principally arisen from the Group's purchases of the Sports Internet Group ("SIG"), British Interactive Broadcasting ("BiB"), Easynet's UK broadband network assets and residential business, 365 Media, Amstrad, Living TV and The Cloud. Impairment reviews were performed on these goodwill balances at 30 June 2012, which did not indicate impairment.

During the year, the Group completed the acquisition of Acetrax for consideration of £15 million. This resulted in additional goodwill of £12 million.

Goodwill, allocated by cash generating unit, is analysed as follows:

	2012 £m	2011 £m
Broadcast(i)	807	795
Betting and gaming(ii)	149	149
	956	**944**

The Broadcast unit includes intangibles with indefinite lives of £25 million (2011: £25 million).

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. The cash flows were discounted using a pre-tax discount rate of 8% (2011: 9%) .

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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12. Goodwill *continued*

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.

13. Intangible assets

	Internally generated intangible assets £m	Software development (external) £m	Software licences £m	Other intangible assets £m	Internally generated intangible assets not yet available for use £m	Acquired intangible assets not yet available for use £m	Total £m
Cost							
At 1 July 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**
Additions from business combinations	–	3	–	1	–	–	4
Additions	45	22	11	57	56	31	222
Disposals	(35)	(44)	(20)	(17)	–	–	(116)
Transfers	28	19	1	–	(28)	(20)	–
At 30 June 2012	**252**	**347**	**80**	**284**	**54**	**103**	**1,120**
Amortisation							
At 1 July 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**
Amortisation	54	37	15	59	–	–	165
Disposals	(35)	(44)	(20)	(17)	–	–	(116)
At 30 June 2012	**122**	**249**	**59**	**167**	**–**	**–**	**597**
Carrying amounts							
At 1 July 2010	82	50	39	34	32	99	336
At 30 June 2011	111	91	24	118	26	92	462
At 30 June 2012	**130**	**98**	**21**	**117**	**54**	**103**	**523**

The Group's internally generated intangible assets relate to software development associated with our customer management systems and set-top boxes. The Group's other intangible assets mainly include copyright licences, customer lists and relationships, connection fees 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.

	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m
Estimated amortisation charge	176	122	89	21	20

For intangible assets acquired in business combinations in the year, the average amortisation period is 9 years (2011: 20 years).

Other intangible assets include certain assets with indefinite useful lives. The carrying value of these assets is £25 million (2011: £25 million).

14. 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 £m	Total £m
Cost					
At 1 July 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**
Foreign exchange movements	–	–	(1)	–	(1)
Additions	–	1	192	38	231
Disposals	–	(1)	(160)	–	(161)
Transfers	1	–	40	(41)	–
At 30 June 2012	**333**	**59**	**1,210**	**27**	**1,629**
Depreciation					
At 1 July 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**
Foreign exchange movements	–	–	(1)	–	(1)
Depreciation	10	6	163	–	179
Disposals	(1)	(1)	(159)	–	(161)
At 30 June 2012	**40**	**27**	**614**	**–**	**681**
Carrying amounts					
At 1 July 2010	160	46	472	221	899
At 30 June 2011	301	37	528	30	896
At 30 June 2012	**293**	**32**	**596**	**27**	**948**

(i) The amounts shown include assets held under finance leases with a net book value of £5 million (2011: £6 million). The cost of these assets was £11 million (2011: £11 million) and the accumulated depreciation was £6 million (2011: £5 million). Depreciation charged during the year on such assets was £1 million (2011: £1 million).

(ii) Depreciation was not charged on £88 million of land (2011: £88 million).

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15. Investments in joint ventures and associates

A list of the Group's significant investments in joint ventures and associates, including the name, country of incorporation and proportion of ownership interest is given in note 32 to the consolidated financial statements.

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

	2012 £m	2011 £m
Share of net assets:		
At 1 July	151	149
Movement in net assets		
– Funding, net of repayments	6	4
– Dividends received[(i)]	(39)	(29)
– Share of profits[(i)]	39	34
– Disposal of joint venture [(i)]	(3)	–
– Exchange differences on translation of foreign joint ventures and associates	2	(7)
At 30 June	**156**	**151**

(i) During the year, the Group disposed of its interest in Chelsea Digital Media Limited. Included in share of profits for the year is a profit on disposal of £7 million. Consideration received on the sale to date of £6 million is included within dividends received.

The Group's share of any capital commitments and contingent liabilities of associates and joint ventures is shown in note 28.

a) Investments in joint ventures

Representing the Group's share of each joint venture:

	2012 £m	2011 £m
Non-current assets	29	5
Current assets	75	63
Current liabilities	(32)	(32)
Non-current liabilities	(46)	(7)
Shareholders' equity	**26**	**29**
Revenue	84	79
Expense	(69)	(59)
Taxation	(4)	(4)
Share of profit from joint ventures	**11**	**16**

b) Investments in associates

Representing a 100% share of each associate:

	2012 £m	2011 £m
Total assets	256	183
Total liabilities	(78)	(66)
Shareholders' equity	**178**	**117**
Revenue[(i)]	296	257
Profit[(i)]	105	85

(i) Revenue and profit numbers are provided for the full year ended 30 June 2012 and 30 June 2011.

16. Available-for-sale investments

	2012 £m	2011 £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	165	157
Fair value of ITV investment	**223**	**215**
Other investments at cost	5	–
	228	**215**

On 17 November 2006, the Group acquired 696 million shares in ITV, at a price of 135 pence per share, representing 17.9% of the issued capital of ITV, for a total consideration of £946 million including fees and taxes. The Group's investment in ITV is carried at fair value.

The fair value is determined with reference to its equity share price at the balance sheet date. An impairment in the carrying value was first recorded at 31 December 2007, due to the significant and prolonged decline in the equity share price. In accordance with IFRS, the Group has continued to review that carrying value and has recognised a cumulative impairment loss of £807 million in fiscal 2008 and fiscal 2009. This impairment loss was determined with reference to ITV's closing equity share price of 20.0 pence at 27 March 2009, the last trading day of the Group's third fiscal quarter in fiscal 2009. In line with IFRS, all subsequent increases in the fair value of the ITV investment above this impaired value have been recorded in the available-for-sale reserve.

On 8 February 2010, the Group placed a shareholding of 10.4% in ITV in accordance with the final undertakings given by the Group to the Secretary of State for Business, Innovation and Skills relating to the Group's investment in ITV. The placing by the Group of 404,362,095 ITV shares at 48.5 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.

The Group holds certain unquoted equity investments that are carried at cost less impairment. The fair value of these investments is not considered to differ significantly from their carrying value.

17. Deferred tax

i) Recognised deferred tax assets (liabilities)

	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 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
(Charge) to income	(1)	–	–	(6)	(5)	(12)
Credit to equity	–	–	–	(23)	(18)	(41)
Acquisition of subsidiaries	(1)	–	–	–	–	(1)
Effect of change in tax rate						
– Income	–	–	–	(2)	1	(1)
– Equity	–	–	–	(1)	2	1
At 30 June 2012	**12**	**1**	**6**	**26**	**(30)**	**15**

Deferred tax assets have been recognised at 30 June 2012 and 30 June 2011 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 24% as at 30 June 2012 (2011: 26%).

The Government has indicated that it intends to introduce further reductions in the main tax rate, with the rate falling by 1% each year down to 22% by 1 April 2014. These further reductions to the tax rate, below the 24% rate, have not been substantively enacted at the balance sheet date and are therefore not reflected in these consolidated financial statements.

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17. Deferred tax *continued*

The impact of the reduction to the main tax rate to 22% (2011: 25%) on the deferred tax attributes of the Group would be a reduction in the deferred tax asset by £1 million (2011: £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:

	2012 £m	2011 £m
Deferred tax assets	46	79
Deferred tax liabilities	(31)	(10)
	15	**69**

ii) Unrecognised deferred tax assets

	2012 £m	2011 £m
Tax losses arising from trading	252	300
Tax losses arising from capital disposals and provisions against investments	341	366
	593	**666**

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 2012, a deferred tax asset of £14 million (2011: £40 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 2012, a deferred tax asset of £238 million (2011: £260 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 £235 million (2011: £258 million) with respect to the Group's German holding company's former investment in KirchPayTV and £3 million (2011: £2 million) with respect to The Cloud and Acetrax subsidiaries. The Cloud and KirchPayTV overseas trading losses can be carried forward indefinitely. The Acetrax losses will expire over the course of the next seven years.

At 30 June 2012, a deferred tax asset of £329 million (2011: £354 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 2012, the Group also has capital losses with a tax value estimated to be in excess of £12 million (2011: £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.

18. Inventories

	2012 £m	2011 £m
Television programme rights	379	265
Set-top boxes and related equipment	69	98
Other inventories	8	12
	456	**375**

At 30 June 2012, 81% (2011: 85%) of the television programme rights and 100% (2011: 100%) of set-top boxes and related equipment and other inventories is expected to be recognised in the income statement within 12 months.

19. Trade and other receivables

	2012 £m	2011 £m
Gross trade receivables	170	274
Less: provision for impairment of receivables	(89)	(195)
Net trade receivables	**81**	**79**
Amounts receivable from joint ventures and associates	8	7
Amounts receivable from other related parties	12	10
Prepayments	294	239
Accrued income	155	152
VAT	1	17
Other	70	88
Current trade and other receivables	**621**	**592**
Non-current prepayments	7	13
Non-current other receivables	10	–
Non-current trade and other receivables	**17**	**13**
Total trade and other receivables	**638**	**605**

Included within current trade and other receivables is nil (2011: 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:

	2012 £m	2011 £m
Up to 30 days past due date	49	62
30 to 60 days past due date	1	1
60 to 120 days past due date	2	2
More than 120 days past due date	–	2
	52	**67**

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

	2012 £m	2011 £m
Balance at beginning of year	195	153
Amounts utilised	(137)	–
Income statement charge	31	42
Balance at end of year	**89**	**195**

20. Trade and other payables

	2012 £m	2011 £m
Trade payables[i]	629	429
Amounts owed to joint ventures and associates	10	5
Amounts owed to other related parties	90	69
VAT	140	145
Accruals	620	654
Deferred income	291	286
Other	75	87
Current trade and other payables	**1,855**	**1,675**
Trade payables	9	12
Amounts owed to other related parties	8	5
Deferred income	6	7
Other	4	2
Non-current trade and other payables	**27**	**26**
Total trade and other payables	**1,882**	**1,701**

(i) Included within trade payables are £226 million (2011: £182 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.

21. Provisions

	At 1 July 2010 £m	Provided during the year £m	Utilised during the year £m	At 1 July 2011 £m	Provided during the year £m	Utilised during the year £m	At 30 June 2012 £m
Current liabilities							
Restructuring provision	7	–	(7)	–	6	–	6
Acquired and acquisition related provisions[i]	15	4	(8)	11	4	–	15
Other provisions[ii]	5	5	–	10	18	(6)	22
	27	**9**	**(15)**	**21**	**28**	**(6)**	**43**
Non-current liabilities							
Other provisions[iii]	**11**	**1**	**(3)**	**9**	**7**	**(4)**	**12**

(i) These provisions arose on the acquisition of Amstrad which took place during the year ended 30 June 2008. The amounts remaining at 30 June 2012 primarily relate to the settlement of outstanding claims.

(ii) 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.

(iii) 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.

22. Borrowings

	2012 £m	2011 £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]	500	490
£400 million of 5.750% Guaranteed Notes repayable in October 2017[i]	407	406
US$750 million of 6.100% Guaranteed Notes repayable in February 2018[i]	495	476
US$582.8 million of 9.500% Guaranteed Notes repayable in November 2018[i]	420	383
£300 million of 6.000% Guaranteed Notes repayable in May 2027[i]	296	295
US$350 million of 6.500% Guaranteed Notes repayable in October 2035[i]	220	214
Obligations under finance leases[ii]	60	61
	2,398	**2,325**

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22. Borrowings *continued*

(i) Guaranteed Notes

At 30 June 2012, 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[(a)]	389	260	129	7.091%	6m LIBOR + 5.542%
£300 million of 6.000% Guaranteed Notes repayable in May 2027	300	300	–	6.000%	N/A
	1,076	**850**	**226**		

(a) On 1 June 2012, the Group entered into forward starting interest rate swaps to fix the interest rates on £260 million of the November 2018 notes from 15 May 2013 to 15 November 2018. The £260 million, referred to as fixed in the table above, has one further rate reset in November 2012 before this fixed rate becomes effective.

At 30 June 2012, 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 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**		

* *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.

(ii) Finance leases

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

	2012 £m	2011 £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	153	161
	193	**201**
Future finance charges on finance lease liabilities	(125)	(132)
Present value of finance lease liabilities	**68**	**69**

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 (2011: £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 (2011: £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 £743 million RCF with a maturity date of 31 October 2016, syndicated across 10 counterparty banks, each with a minimum credit rating of "Baa1" or equivalent from Standard & Poor's. At 30 June 2012, the RCF was undrawn (2011: undrawn).

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 than 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 £743 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.

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23. Derivatives and other financial instruments

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

	2012				2011			
	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	141	833	–	–	95	812	–	–
Cash flow hedges								
Cross-currency swaps	186	661	–	–	133	661	–	–
Forward foreign exchange contracts	28	880	(3)	223	8	442	(28)	783
Currency options (collars)	2	13	–	13	4	28	–	28
Derivatives not in a formal hedge relationship								
Forward foreign exchange contracts	–	25	(1)	127	2	67	–	9
Cross-currency swaps	57	353	(28)	390	44	353	(40)	390
Interest rate swaps	–	140	–	120	–	–	–	–
Total	**414**	**2,905**	**(32)**	**873**	**286**	**2,363**	**(68)**	**1,210**

The maturity of the derivative financial instruments is as follows:

	2012		2011	
	Asset £m	Liability £m	Asset £m	Liability £m
In one year or less	23	(2)	9	(20)
Between one and two years	6	(1)	4	(6)
Between two and five years	101	(1)	87	(2)
In more than five years	284	(28)	186	(40)
Total	**414**	**(32)**	**286**	**(68)**

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 (2011: nil). The gross sterling notional value of these forward contracts at 30 June 2012 was £2 million (2011: £2 million).

The fair value of the Group's debt-related derivative portfolio at 30 June 2012 was a £356 million net asset (2011: net asset of £232 million) with net notional principal amounts totalling £1,454 million (2011: £1,454 million). This comprised: net assets of £186 million designated as cash flow hedges (2011: net assets of £133 million), net assets of £141 million designated as fair value hedges (2011: net assets of £95 million) and net assets of £29 million not designated in a formal hedge relationship (2011: net assets of £4 million).

At 30 June 2012, the carrying value of financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss was nil (2011: nil).

Hedge accounting classification and impact

The Group has designated its interest rate swaps as fair value hedges of interest rate risk, representing 37% (2011: 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% (2011: 34%) of the Group's debt portfolio. As such, the effective portion of the gain or loss on these contracts is reported as a separate component of the hedging reserve, and is then reclassified to the income statement in the same periods that the forecast transactions affect the income statement. During the current year, gains of £22 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 (2011: losses of £54 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 £3 million were removed from the hedging reserve and credited to operating expense in the income statement (2011: gains of £2 million). Gains of £5 million were removed from the hedging reserve and credited to revenue in the income statement (2011: gains of £11 million).

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. Ineffectiveness of £1 million was recognised in the income statement during the current year (2011: £3 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 2012, there were no instances in which the hedge relationship was not highly effective (2011: 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 2012								
Quoted bond debt	–	–	–	–	–	(2,338)	(2,338)	(2,674)
Derivative financial instruments	–	–	28	354	–	–	382	382
Trade and other payables	–	–	–	–	–	(1,378)	(1,378)	(1,378)
Provisions	–	–	–	–	–	(12)	(12)	(12)
Obligations under finance leases and other borrowings	–	–	–	–	–	(68)	(68)	(68)
Available-for-sale investments	–	228	–	–	–	–	228	228
Trade and other receivables	–	–	–	–	278	–	278	278
Short-term deposits	710	–	–	–	–	–	710	710
Cash and cash equivalents	–	–	–	–	464	–	464	464
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

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

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23. Derivatives and other financial instruments *continued*

- 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 2012 and 30 June 2011. 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 2012				
Assets measured at fair value				
Available-for-sale financial instruments				
ITV investment	223	223	–	–
Other investments at cost	5	–	–	5
Financial assets at fair value through profit or loss				
Interest rate swaps	141	–	141	–
Cross-currency swaps	243	–	243	–
Forward foreign exchange and option contracts	30	–	30	–
Total	**642**	**223**	**414**	**5**
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Cross-currency swaps	(28)	–	(28)	–
Forward foreign exchange and option contracts	(4)	–	(4)	–
Total	**(32)**	**–**	**(32)**	**–**
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)**	**–**

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.

24. Financial risk management

Group Treasury activity

The Group's Treasury function is responsible for raising finance for the Group's operations, together with associated liquidity management and management of foreign exchange, interest rate and credit risks. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed by both the Audit Committee and the Board, which receive regular updates of Treasury activity. Derivative instruments are transacted for risk management purposes only. It is the Group's policy that all hedging is to cover known risks and no speculative trading is undertaken. Regular and frequent reporting to management is required for all transactions and exposures, and the internal control environment is subject to periodic review by the Group's internal audit team.

The Group's principal market risks are exposures to changes in interest rates and foreign exchange rates, which arise both from the Group's sources of finance and its operations. Following evaluation of those market risks, the Group selectively enters into derivative financial instruments to manage these exposures. The principal instruments currently used are interest rate swaps to hedge interest rate risks, and cross-currency swaps, forward 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 2012, 75% of borrowings were held at fixed rates after hedging (2011: 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 2012, 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 2012, this amounted to £1 million (2011: £3 million).

At 30 June 2012 and 30 June 2011, 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 2012, and if all other variables were held constant:

- The Group's profit for the year ended 30 June 2012 would increase or decrease by £4 million (2011: profit for the year would increase or decrease by £6 million). The year on year decrease is driven by a decrease in the cash balance held.
- Other equity reserves would decrease or increase by £14 million (2011: 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 2012, the split of the Group's aggregate borrowings into their core currencies was US dollar 67% and pounds sterling 33% (2011: US dollar 66% and pounds sterling 34%). At 30 June 2012, 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

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24. Financial risk management *continued*

of revenues is denominated in Euros. In the current year, approximately 10% of operating expenses (£532 million) was denominated in US dollars (2011: approximately 11% (£595 million)) and 6% of revenues was denominated in Euros (2011: 6%).

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 (2011: surplus).

The Group has some exposure to the European financial crisis although the Group's net euro cash flows are approximately 3% of total group revenues and the Group's practice is to hold less than £10 million on deposit in euros. Whilst some of the Group's syndicate banks are headquartered in Europe, the Group does not currently anticipate drawing the RCF. To mitigate remaining risks, counterparty credit and sovereign ratings are closely monitored, and no more than 10% of cash deposits are held with a single bank counterparty (with the exception of overnight deposits which are invested in a spread of AAA-rated liquidity funds).

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 2012, the Group had purchased forward foreign exchange contracts and collars representing up to:

- Approximately 85% of US dollar-denominated costs falling due within one year (2011: 90%), and approximately 80% of US dollar-denominated costs falling due within five years (2011: approximately 80%) which are hedged via
    - Outstanding commitments to purchase, in aggregate, US$1,298 million (2011: US$1,456 million) at an average rate of US$1.58 to £1.00 (2011: US$1.59 to £1.00) .
    - Collars relating to the purchase of a total of US$20 million (2011: US$45 million) in aggregate.
- Approximately 75% of net Euro-denominated exposures relating to revenues and transponder costs falling due within 18 months (2011: approximately 80%), which are hedged via
    - Outstanding commitments to sell, in aggregate, €400 million (2011: €405 million) at an average rate of €1.18 (2011: €1.16) .
    - Outstanding commitments to purchase, in aggregate, €88 million (2011: €22 million) at an average rate of €1.22 (2011: €1.13) .

No forward foreign exchange contracts or collars fall due beyond five years (2011: 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 (2011: less than £1 million).

During the year, the Group exchanged £3 million for US dollars (2011: £55 million) and €12 million was exchanged for pounds sterling (2011: €7 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 £27 million (2011: reducing profit by £29 million), of which losses of £26 million relate to non-cash movements in the valuation of derivatives (2011: losses of £29 million). The same strengthening would have an adverse impact on other equity of £185 million (2011: adverse impact of £185 million).

A 25% weakening in pounds sterling against the US dollar would have the effect of increasing profit by £45 million (2011: increasing profit by £48 million) of which gains of £44 million relate to non-cash movements in the valuation of derivatives (2011: gains of £48 million). The same weakening would have a beneficial impact on other equity of £309 million (2011: beneficial impact of £309 million).

A 25% strengthening in pounds sterling against the Euro would have the effect of increasing profit by less than £1 million (2011: increasing profit by £1 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 £52 million (2011: beneficial impact of £70 million).

A 25% weakening in pounds sterling against the Euro would have the effect of reducing profit by less than £1 million (2011: reducing profit by £2 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 £86 million (2011: adverse impact of £117 million).

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates is constantly changing as the Group's portfolio of debt, 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 23.

Credit risk

The Group is exposed to counterparty default risk amounting to invested cash and cash equivalents and short-term deposits, and the positive fair value of derivative financial assets held.

This risk is deemed to be low. Counterparty risk forms a central part of the Group's Treasury policy, which is monitored and reported on regularly. The Group manages credit risk by diversifying its exposures across a wide number of counterparties, such that the maximum exposure to any individual counterparty was less than 18% 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 "Baa2" or equivalent from Standard & Poor's.

The amount recognised in the income statement in respect of credit risk for derivatives deemed held for trading is nil (2011: 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 19.

Liquidity risk

Our principal source of liquidity is cash generated from operations, combined with access to a £743 million RCF, which expires in October 2016, with the right to request an extension of either one or two further years. At 30 June 2012, this facility was undrawn (30 June 2011: 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 2012, 59% (2011: 59%) 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 22, other than trade and other payables, shown in note 20, and provisions, shown in note 21.

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24. Financial risk management *continued*

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 2012				
Non derivative financial liabilities				
Bonds – USD	107	107	760	1,433
Bonds – GBP	41	41	123	903
Obligations under finance leases and other borrowings	8	8	24	153
Trade and other payables	1,281	86	11	–
Provisions	9	4	1	1
Net settled derivatives				
Financial assets	(32)	(32)	(81)	(28)
Gross settled derivatives				
Outflow	894	391	759	1,255
Inflow	(917)	(397)	(813)	(1,408)

	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)

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 2012, the Net Debt: EBITDA ratio as defined by the terms of the RCF was 0.6: 1 (2011 : 0.6 :1).

25. Share capital

	2012 £m	2011 £m
Allotted, called-up and fully paid shares of 50p		
1,674,454,881 (2011: 1,752,842,599)	837	876

	2012 Number of ordinary shares	2011 Number of ordinary shares
Allotted and fully paid during the year		
Beginning of year	1,752,842,599	1,752,842,599
Shares repurchased and subsequently cancelled	(78,387,718)	–
End of year	**1,674,454,881**	**1,752,842,599**

The Company has one class of ordinary shares which carry equal voting rights and no contractual right to receive payment. Full details of the Company's share buy-back programme are provided in note 26.

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:

	2012 Number of ordinary shares	2011 Number of ordinary shares
Executive Share Option Scheme options(i)	2,630,435	5,583,424
Sharesave Scheme options(ii)	7,238,348	6,554,165
All Employee awards(iii)	–	1,168,200
Management LTIP awards(iv)	15,018,148	22,326,138
LTIP awards(v)	6,462,723	8,610,930
Management Co-Investment LTIP awards(vi)	1,869,416	1,268,260
Co-Investment LTIP awards(vii)	1,953,013	1,286,906
	35,172,083	**46,798,023**

(i) Executive Share Option Scheme options

All Executive Share Option Scheme options outstanding at 30 June 2012 and 30 June 2011 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 2012 and 30 June 2011 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 had no performance criteria attached, other than the requirement that the employee remained in employment with the Group until the vesting date on 5 February 2012. The Company granted the All Employee award to all permanent employees on 5 February 2009. Awards under the scheme were granted in the form of a nil-priced option, and were satisfied using market-purchased shares.

(iv) Management LTIP awards

All Management LTIP awards outstanding at 30 June 2012 and 30 June 2011 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 2012 and 30 June 2011 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-

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25. Share capital *continued*
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 that vested in 2011), 30% of the award vested 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% vested dependent on performance against operational targets. The TSR performance targets are not applicable to awards made since July 2010 but will be re-introduced for awards granted from July 2012 onwards.

(vi) Management Co-Investment LTIP awards
All Management Co-Investment LTIP awards outstanding at 30 June 2012 and 30 June 2011 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 2012 and 30 June 2011 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.

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 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
Granted during the year	–	–	3,533,830	5.08	10,660,219	0.00	14,194,049	1.26
Exercised during the year	(639,882)	5.59	(2,995,574)	2.43	(17,066,707)	0.00	(20,702,163)	0.52
Forfeited during the year	(69,147)	5.86	(985,985)	4.70	(1,782,446)	0.00	(2,837,578)	1.78
Expired during the year	(2,243,960)	7.93	(36,288)	5.25	–	–	(2,280,248)	7.89
Outstanding at 30 June 2012	**2,630,435**	**5.84**	**7,238,348**	**4.94**	**25,303,300**	**0.00**	**35,172,083**	**1.45**

The weighted average market price of the Group's shares at the date of exercise for share options exercised during the year was £7.01 (2011: £7.85). For those exercised under the Executive Scheme it was £7.19 (2011: £7.99), for those exercised under the Sharesave Schemes it was £6.89 (2011: £7.54), and for those exercised under the Senior Management Schemes it was £7.03 (2011: £7.08).

The middle-market closing price of the Company's shares at 29 June 2012 was £6.97 (1 July 2011: £8.49).

The following table summarises information about share awards outstanding at 30 June 2012:

	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	–	–	–	–	25,303,300	6.0	25,303,300	6.0
£3.00 – £4.00	–	–	578,155	1.6	–	–	578,155	1.6
£4.00 – £5.00	–	–	1,597,612	1.6	–	–	1,597,612	1.6
£5.00 – £6.00	1,318,767	1.6	5,062,581	3.6	–	–	6,381,348	3.2
£6.00 – £7.00	1,310,170	1.1	–	–	–	–	1,310,170	1.1
£7.00 – £8.00	1,498	1.7	–	–	–	–	1,498	1.7
	2,630,435	**1.4**	**7,238,348**	**3.0**	**25,303,300**	**6.0**	**35,172,083**	**5.0**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

25. Share capital *continued*

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 range of exercise prices of the awards outstanding at 30 June 2012 was between nil and £7.16 (2011: nil and £7.94). For those awards outstanding under the Executive Scheme it was between £5.03 and £7.16 (2011: £5.03 and £7.94); for those outstanding under the Sharesave Schemes it was between £3.72 and £5.65 (2011: nil and £5.65) and for all awards outstanding under the Senior Management Schemes the exercise price was nil (2011: nil).

The following table summarises additional information about the awards exercisable at 30 June 2012 and 30 June 2011:

	2012			2011		
	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	2,630,435	1.4	5.84	5,583,424	1.5	6.65
Sharesave Schemes	160,403	0.1	3.80	72,812	0.1	5.24
Senior Management Schemes	1,258,950	4.1	0.00	–	–	–
	4,049,788	**2.2**	**3.95**	**5,656,236**	**1.5**	**6.64**

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 £5.39 (2011: £5.95) . 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 £1.87 (2011: £1.91). This was calculated using the Black-Scholes share option pricing model.

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

	2012	2011
Share price	£6.88	£7.09
Exercise price	£5.08	£5.65
Expected volatility	28.6%	28.1%
Expected life	4.5 years	4.6 years
Expected dividends	3.4%	2.7%
Risk-free interest rate	1.0%	1.5%

(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 £6.56 (2011: £6.59) . 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.

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

	2012	2011
Share price	£7.04	£7.11
Exercise price	£0.00	£0.00
Expected life	2.1 years	3.0 years
Expected dividends	3.3%	2.5%

26. Shareholders' equity

	2012 £m	2011 £m
Share capital	837	876
Share premium	1,437	1,437
ESOP reserve	(112)	(107)
Hedging reserve	68	14
Available-for-sale reserve	165	157
Other reserves	399	358
Retained earnings	(1,850)	(1,700)
	944	**1,035**

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 (2011: £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

On 29 November 2011, the Company's shareholders approved a resolution ("the November 2011 resolution") at the AGM for the Company to return £750 million of capital to shareholders via a share buy-back programme.

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 is the price payable by the Company in respect of the relevant market purchases. 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

26. Shareholders' equity *continued*

During the year, the Company purchased, and subsequently cancelled, 78,387,718 ordinary shares at an average price of £6.92 per share, with a nominal value of £39 million, for a total consideration of £546 million. Consideration included stamp duty and commission of £3 million. This represents 4% of called-up share capital at the beginning of the period. Of these purchases, the Company purchased, and subsequently cancelled, 30,679,157 ordinary shares from News Corporation at an average price of £6.92 per share, with a nominal value of £15 million, for a consideration of £213 million. Consideration included stamp duty of £1 million.

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 £	Total capital returned as part of the November 2011 resolution £m(i)	Capital authorised to be returned under the November 2011 resolution £m
July	–	–	–	–
August	12,044,959	7.14	–	–
September	–	–	–	–
October	–	–	–	–
November	1,140,971	7.52	9	741
December	10,575,756	7.36	78	663
January	–	–	–	663
February	21,943,653	6.92	143	520
March	11,087,157	6.90	77	443
April	11,208,038	6.63	74	369
May	13,883,329	6.93	96	273
June	19,666,754	6.72	66	207
Total for the year ended 30 June 2012	**101,550,617**	**6.93**	**543**	**207**

(i) All share purchases 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 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**
Share options exercised during the year	(20,702,163)	£7.55	(156)
Shares purchased by the ESOP during the year	23,162,899	£6.93	161
At 30 June 2012	**16,293,345**	**£6.85**	**112**

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 2012, the Group's available-for-sale reserve was £165 million (2011: £157 million).

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 £134 million as at 30 June 2012 (2011: £95 million). The merger reserve was £222 million as at 30 June 2012 (2011: £222 million). The special reserve was £14 million as at 30 June 2012 (2011: £14 million). The foreign currency translation reserve was £29 million as at 30 June 2012 (2011: £27 million).

27. Notes to the Consolidated Cash Flow Statement

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

	2012 £m	2011 £m
Profit before taxation	**1,189**	**1,014**
Depreciation and impairment of property, plant and equipment	179	173
Amortisation and impairment of intangible assets	165	159
Profit on disposal of available-for-sale investment	–	(9)
Share-based payment expense	66	69
Net finance costs	93	102
Share of results of joint ventures and associates	(39)	(34)
	1,653	**1,474**
Increase in trade and other receivables	(32)	(59)
(Increase) decrease in inventories	(81)	6
Increase in trade and other payables	175	158
Increase (decrease) in provisions	25	(8)
Decrease in derivative financial instruments	(3)	(2)
Cash generated from continuing operations	**1,737**	**1,569**

28. Contracted commitments, contingencies and guarantees

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

	Year ending 30 June 2013 £m	Year ending 30 June 2014 £m	Year ending 30 June 2015 £m	Year ending 30 June 2016 £m	Year ending 30 June 2017 £m	After 5 years £m	Total at 30 June 2012 £m	Total at 30 June 2011 £m
Television programme rights(i)	1,217	1,266	1,227	1,015	221	156	5,102	2,922
Set-top boxes and related equipment	182	–	–	–	–	–	182	282
Third party payments(ii)	69	44	41	38	18	–	210	73
Transponder capacity(iii)	87	77	78	74	70	297	683	838
Property, plant and equipment	27	–	–	–	–	–	27	47
Intangible assets(iv)	37	22	19	20	20	26	144	142
Smartcards(iv)	43	43	44	45	45	56	276	360
Other	181	71	40	13	9	23	337	227
	1,843	**1,523**	**1,449**	**1,205**	**383**	**558**	**6,961**	**4,891**

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

(i) At 30 June 2012, the Group had minimum television programming rights commitments of £5,102 million (2011: £2,922 million), of which £376 million (2011: £344 million) related to commitments payable in US dollars for periods of up to six years (2011: seven years).
Assuming that movie subscriber numbers remain unchanged from current levels, an additional £420 million (US$652 million) of commitments (2011: £455 million (US$735 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 £9 million (2011: £18 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 (2011: five years). The extent of the commitment is largely dependent upon the number of retail subscribers to the relevant Sky Distributed Channels, and in certain cases, upon inflationary increases. If both the retail subscriber levels to these channels and the rate payable for each Sky Distributed Channel were to remain at current levels subject to inflationary increases, the additional commitment would be £463 million (2011: £525 million).

(iii) Transponder capacity commitments are in respect of the Astra, Eutelsat and Telenor Satellite Broadcasting AS satellites that the Group uses for digital transmissions to both retail subscribers and cable operators. The commitments are for periods of up to thirteen years (2011: fourteen years).

(iv) The Group has a contractual agreement with NDS, a related party, for the provision of smartcards. Smartcards under development are included within intangible assets. The amounts included above are the expected ongoing smartcard costs based on forecast customer levels.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

28. Contracted commitments, contingencies and guarantees *continued*

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 £30 million (2011: £38 million).

The Group has guarantees in place relating to the Group's borrowings, see note 22.

29. Operating lease commitments

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

	2012 £m	2011 £m
Within one year	49	45
Between one and two years	39	33
Between two and three years	32	24
Between three and four years	27	17
Between four and five years	20	14
After five years	59	54
	226	**187**

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:

	2012 £m	2011 £m
Within one year	6	5
Between one and two years	3	5
Between two and three years	2	3
Between three and four years	2	2
Between four and five years	2	2
After five years	6	8
	21	**25**

Sub-lease rentals primarily relate to property leases.

30. Transactions with related parties and major shareholders

a) Entities with joint control or significant influence

The Group conducts business transactions with companies that are part of the News Corporation group ("News Corporation"), a major shareholder:

	2012 £m	2011 £m
Supply of goods or services by the Group	79	49
Purchases of goods or services by the Group	(199)	(216)
Amounts owed by News Corporation to the Group	12	10
Amounts owed to News Corporation by the Group	(98)	(74)

At 30 June 2012 the Group had expenditure commitments of £462 million (2011: £567 million) with News Corporation companies of which £58 million (2011: £76 million) related to minimum television programming rights commitments and £404 million (2011: £491 million) related to expected ongoing smartcard costs.

Goods and services supplied to News Corporation

During the year, the Group supplied set-top boxes, programming, airtime, transmission, marketing, consultancy services, customer relationship management services and a licence to use the Sky brand 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 and IT services 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 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 £39 million was received during the year which exceeded all of the Group's direct costs associated with the proposal.

Share buy-back programme

During the year, the Company purchased, and subsequently cancelled, 30,679,157 ordinary shares held by News Corporation as part of its share buy-back programme. For further details, see note 26.

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.

	2012 £m	2011 £m
Supply of services by the Group	24	23
Purchases of goods or services by the Group	(67)	(57)
Amounts owed by joint ventures and associates to the Group	15	23
Amounts owed to joint ventures and associates by the Group	(10)	(5)

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 £7 million (2011: £16 million) relating to loan funding. These loans bear interest at rates of 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 £16 million (2011: £17 million).

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

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 with AETN UK that had not matured as at 30 June 2012 was £2 million (2011: £2 million).

During the year, US$3 million (2011: US$4 million) was paid to the joint ventures upon maturity of forward exchange contracts and US$14 million (2011: less than US$1 million) was received from joint ventures upon maturity of forward exchange contracts.

During the year, £2 million (2011: £3 million) was received from the joint ventures upon maturity of forward exchange contracts, and £7 million (2011: less than £1 million) was paid to the joint ventures upon maturity of forward exchange contracts.

During the year, no euro amounts were received from the joint ventures upon maturity of forward exchange contracts (2011: €1 million) and €2 million (2011: nil) was paid to the joint ventures upon maturity of forward exchange contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

30. Transactions with related parties and major shareholders *continued*

At 30 June 2012 the Group had minimum expenditure commitments of £1 million (2011: £3 million) with its joint ventures and associates.

c) Other transactions with related parties

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 £1 million (2011: £2 million) with Freud. At 30 June 2012 there was less than £1 million (2011: £1 million) due to Freud.

During the prior year, a close family member of one Director of the Company who served during the prior 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 5). Shine continues to be a related party of the Group and transactions with Shine are included within the balances disclosed in note 30a.

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 2012, there were 14 (2011: 14) members of key management all of whom were Directors of the Company. Key management compensation is disclosed in note 7b.

31. Events after the reporting period

On 25 July 2012, the Board agreed to seek the necessary approvals to return a further £500 million of capital to shareholders via a share buy-back programme. Shareholder approvals will be sought at the Company's AGM on 1 November 2012. 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.

32. 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
BSkyB Finance UK plc	England and Wales	50,000 ordinary shares of £1 each (100%)	Finance company
BSkyB Telecommunications Limited	England and Wales	1,000 ordinary shares of £1 each (100%)	Management of the network assets in the UK
Subsidiaries:			
Indirect holdings of the Company			
Sky Subscribers Services Limited	England and Wales	3 ordinary shares of £1 each (100%)	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%)	Supply, installation and maintenance of satellite television receiving equipment
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 Network Services Limited	England and Wales	2 ordinary shares of £1 each (100%)	Management of the network assets in the UK
BSkyB Telecommunications Services Limited	England and Wales	5,821,764 ordinary shares of £1 each (100%)	Management of the network assets in the UK
Sky Ventures Limited	England and Wales	912 ordinary shares of £1 each (100%)	Holding company
The Cloud Networks Limited	England and Wales	30,583,988 shares of £0.00025 per share (100%)	Provision of telecommunications
Hestview Limited	England and Wales	108 ordinary shares of £1 each (100%)	Provision of sports betting activities
Bonne Terre Limited	Guernsey	2,504 ordinary shares of £1 each (100%)	Provision of gaming activities
Joint ventures and associates:			
Nickelodeon UK Limited(i)	England and Wales	104 B Shares of £0.01 each (40%)	Transmission of children's television channels
AETN UK	England and Wales	50,000 A Shares of £1 each (50%)	Transmission of history, biography, crime and investigation television programming
Paramount UK Partnership(i)(ii)	England and Wales	Partnership interest (25%)	Transmission of general entertainment comedy channels
Australian News Channel Pty Limited	Australia	1 ordinary share of AUD$1 (33.33%)	Transmission of news and business channels
NGC Network International LLC	United States of America	Partnership interest (21%)	Transmission of natural history and adventure channels
NGC Network Latin America LLC	United States of America	Partnership interest (21%)	Transmission of natural history and adventure channels
MUTV Limited	England and Wales	800 B Shares of £1 each (33.33%)	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	Transmission of a horse racing channel and related online activities
MGM Channel (UK) Limited	England and Wales	50 ordinary shares of £1 each (50%)	Transmission of classic movies in HD
Sky News Arabia	United Arab Emirates	16,666,666 shares of US$1 each (50%)	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%)	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

33. British Sky Broadcasting Group plc Company only financial statements

COMPANY INCOME STATEMENT

for the year ended 30 June 2012

	Notes	2012 £m	2011 £m
Revenue		**200**	**192**
Operating expense		(20)	(28)
Operating profit		**180**	**164**
Dividend income from subsidiaries	O	874	3,445
Investment income	B	56	63
Finance costs	B	(63)	(65)
Impairment of investment	E	–	(1,829)
Profit before tax	C	**1,047**	**1,778**
Taxation	D	(45)	(38)
Profit for the year attributable to equity shareholders		**1,002**	**1,740**

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

COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2012

	2012 £m	2011 £m
Profit for the year attributable to equity shareholders	**1,002**	**1,740**
Other comprehensive income		
Amounts recognised directly in equity		
Gain (loss) on cash flow hedges	12	(23)
Tax on cash flow hedges	(3)	6
	9	(17)
Amounts reclassified and reported in the income statement		
(Loss) gain on cash flow hedges	(8)	27
Tax on cash flow hedges	2	(7)
	(6)	20
Other comprehensive income for the year (net of tax)	**3**	**3**
Total comprehensive income for the year attributable to equity shareholders	**1,005**	**1,743**

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

All results relate to continuing operations.

COMPANY BALANCE SHEET
as at 30 June 2012

	Notes	2012 £m	2011 £m
Non-current assets			
Investments in subsidiaries	E	8,272	8,056
Other receivables	G	3	6
Derivative financial assets	J	384	272
		8,659	8,334
Current assets			
Other receivables	G	1,652	1,406
Cash and cash equivalents		1	4
		1,653	1,410
Total assets		**10,312**	**9,744**
Current liabilities			
Other payables	I	2,774	2,256
Non-current liabilities			
Borrowings	H	1,211	1,154
Derivative financial liabilities	J	220	181
Deferred tax liabilities	F	3	3
		1,434	1,338
Total liabilities		**4,208**	**3,594**
Share capital		837	876
Share premium		1,437	1,437
Reserves		3,830	3,837
Total equity attributable to equity shareholders		**6,104**	**6,150**
Total liabilities and shareholders' equity		**10,312**	**9,744**

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 25 July 2012 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 2012

	Notes	2012 £m	2011 £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		10	32
Loan to subsidiaries		(13)	(28)
Net cash (used in) from financing activities		**(3)**	**4**
Net (decrease) increase in cash and cash equivalents		**(3)**	**4**
Cash and cash equivalents at the beginning of the year		4	–
Cash and cash equivalents at the end of the year		**1**	**4**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

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

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2012

	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 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**
Profit for the year	–	–	–	–	–	–	–	1,002	1,002
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**	**1,002**	**1,005**
Share-based payment	–	–	–	–	–	(5)	–	(80)	(85)
Share buy-back programme (see note 26):									
– Purchase of own shares for cancellation	(39)	–	–	39	–	–	–	(546)	(546)
– Financial liability for close period purchases	–	–	–	–	–	–	–	(10)	(10)
Dividends	–	–	–	–	–	–	–	(410)	(410)
At 30 June 2012	**837**	**1,437**	**14**	**134**	**844**	**(112)**	**6**	**2,944**	**6,104**

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.

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

	2012 £m	2011 £m
Investment income		
Investment income from subsidiaries	56	63

	2012 £m	2011 £m
Finance costs		
– Interest payable and similar charges		
Revolving Credit Facility ("RCF")	(8)	(6)
Guaranteed Notes (see note H)	(67)	(68)
	(75)	**(74)**
– Other finance income (expense)		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	12	8
Gain (loss) arising on derivatives in a designated fair value hedge accounting relationship	42	(1)
(Loss) gain arising on adjustment for hedged item in a designated fair value hedge accounting relationship	(42)	2
	12	**9**
	(63)	**(65)**

C. Profit before taxation

Employee benefits

The Company had no employees (2011: 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 54-63.

D. Taxation

i) Taxation recognised in the income statement

	2012 £m	2011 £m
Current tax expense		
Current year	46	43
Adjustment in respect of prior years	–	(7)
Total current tax charge	**46**	**36**
Deferred tax expense		
Origination and reversal of temporary differences	3	2
Adjustment in respect of prior years	(4)	–
Total deferred tax (credit) charge	**(1)**	**2**
Taxation	**45**	**38**

ii) Deferred tax recognised directly in equity

	2012 £m	2011 £m
Deferred tax charge on hedging activities	1	1

iii) Reconciliation of effective tax rate

The tax expense for the year is lower (2011: lower) than the expense that would have been charged using the standard rate of corporation tax in the UK (25.5%) applied to profit before tax. The applicable enacted or substantively enacted effective rate of UK corporation tax for the year was 25.5% (2011: 27.5%). The differences are explained below:

	2012 £m	2011 £m
Profit before tax	1,047	1,778
Profit before tax multiplied by standard rate of corporation tax in the UK of 25.5% (2011: 27.5%)	267	489
Effects of:		
Non-taxable income	(224)	(947)
Non-deductible expenditure	6	503
Over provision in respect of prior years	(4)	(7)
Taxation	**45**	**38**

All taxation relates to UK corporation tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

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

E. Investments in subsidiaries

	£m
Cost	
At 1 July 2010	**5,727**
Additions	5,163
Impairment	(1,829)
At 30 June 2011	**9,061**
Additions	703
Disposal	(487)
At 30 June 2012	**9,277**
Provision	
At 1 July 2010, 30 June 2011 and 30 June 2012	1,005
Carrying amounts	
At 1 July 2010	4,722
At 30 June 2011	8,056
At 30 June 2012	**8,272**

During the year, the Company transferred its investment in British Interactive Broadcasting Holdings Limited to its subsidiary British Sky Broadcasting Limited. Following this transfer, British Interactive Broadcasting Holdings Limited was put into liquidation.

During the prior 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. As a result of this transaction, 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 32 for a list of significant investments of the Company.

F. Deferred tax

Recognised deferred tax liabilities

	Financial instruments temporary differences £m
At 30 June 2010	–
Charge to income	(2)
Charge to equity	(1)
At 30 June 2011	**(3)**
Credit to income	1
Charge to equity	(1)
At 30 June 2012	**(3)**

At 30 June 2012, a deferred tax asset of £299 million (2011: £324 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 2012, the Company has also not recognised a deferred tax asset of £8 million (2011: £1 million) relating to capital losses and provisions in respect of football club investments, on the basis that it is not probable that they will be utilised.

G. Other receivables

	2012 £m	2011 £m
Amounts receivable from subsidiaries	1,652	1,406
Current other receivables	**1,652**	**1,406**
Non-current prepayment	3	6
Total other receivables	**1,655**	**1,412**

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 plus 0.75%. 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 loan agreements with British Sky Broadcasting Limited for £143 million and £109 million, both bearing interest at a rate of 1 month LIBOR plus 0.75% . These loans are repayable on demand.

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 pay television broadcasting and home communications services in the UK and Ireland.

H. Borrowings

	2012 £m	2011 £m
Non-current borrowings		
US$750 million of 6.100% Guaranteed Notes repayable in February 2018	495	476
US$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	420	383
£300 million of 6.000% Guaranteed Notes repayable in May 2027	296	295
	1,211	**1,154**

See note 22 for details of the Company's Guaranteed Notes and RCF and note 24 for details of Capital Risk Management.

I. Other payables

	2012 £m	2011 £m
Other payables		
Amounts owed to subsidiary undertakings	2,746	2,238
Amounts owed to other related parties	4	–
Other	6	–
Accruals	18	18
	2,774	**2,256**

Amounts payable to subsidiaries are non-interest bearing and repayable on demand. The balance comprises £1,271 million of non-interest bearing loans (2011: £725 million) and £1,475 million of other payables (2011: £1,513 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 2012 and 30 June 2011:

	2012 Carrying value £m	2012 Fair value £m	2011 Carrying value £m	2011 Fair value £m
Financial assets and liabilities held or issued to finance the Company's operations				
Quoted bond debt	(1,211)	(1,411)	(1,154)	(1,317)
Derivative financial instruments	164	164	91	91
Other payables and receivables	(1,122)	(1,122)	(850)	(850)

The fair values of financial assets and financial liabilities are determined as detailed in note 23 and all items held at fair value are classified as Level 2 in the fair value hierarchy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

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

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

	2012				2011			
	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	87	494	–	–	46	481	–	–
Cash flow hedges								
Cross-currency swaps	80	290	–	–	65	290	–	–
Derivatives not in a formal hedge relationship								
Interest rate swaps	54	479	(54)	459	49	331	(49)	331
Cross-currency swaps	163	724	(166)	1,017	112	724	(132)	1,017
Total	**384**	**1,987**	**(220)**	**1,476**	**272**	**1,826**	**(181)**	**1,348**

Note 23 provides further details of the Group's derivative and other financial instruments.

The maturity of the derivative financial instruments is shown below:

	2012		2011	
	Asset £m	Liability £m	Asset £m	Liability £m
Between two and five years	99	(99)	86	(86)
In more than five years	285	(121)	186	(95)
Total	**384**	**(220)**	**272**	**(181)**

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 £26 million (2011: adverse impact of £27 million), relating to non-cash movements in the valuation of derivatives. The same strengthening would have an adverse impact on other equity of £21 million (2011: adverse impact of £15 million).

A 25% weakening in pounds sterling against the US dollar would have a beneficial impact on profit of £43 million (2011: beneficial impact of £45 million), relating to non-cash movements in the valuation of derivatives. The same weakening would have a beneficial impact on other equity of £34 million (2011: beneficial impact of £25 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 2012, and if all other variables were held constant, the Company's profit for the year ended 30 June 2012 would decrease or increase by £3 million (2011: decrease or increase by £3 million) and other equity reserves would decrease or increase by £4 million (2011: decrease or increase by £5 million).

A one hundred basis point rise or fall in interest rates represents a large but realistic movement which can easily be multiplied to give sensitivities at different interest rates.

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company. In addition, the Company's actual exposure to market rates changes as the Company's portfolio of debt changes.

The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

Liquidity risk

See note 24 for the Company's policy on liquidity management.

The following table analyses the Company's non-derivative financial liabilities, net settled interest rate swaps and gross settled currency swaps and collars into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

These amounts may not reconcile to the amounts disclosed on the balance sheet for borrowings, derivative financial instruments and other payables.

	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
At 30 June 2012				
Non-derivative financial liabilities				
Bonds – USD	65	65	195	938
Bonds – GBP	18	18	54	480
Other payables	2,774	–	–	–
Net settled derivatives				
Financial assets	(18)	(18)	(56)	(25)
Gross settled derivatives				
Outflow	50	50	149	840
Inflow	(47)	(47)	(140)	(913)

	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)

At 30 June 2012, the Company had an undrawn £743 million RCF with a maturity date of 31 October 2016. See note 22 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 25 and 26.

For details of the Company's £750 million share buy-back programme, see note 26.

For details of dividends, see note 11.

Capital reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

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

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

	2012 £m	2011 £m
Profit before taxation	**1,047**	**1,778**
Dividend income	(874)	(3,445)
Impairment of investment	–	1,829
Net finance costs	7	2
(Increase) decrease in other receivables	(179)	2,039
Decrease in other payables	(1)	(2,203)
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 guarantees in place relating to the Group's borrowings, see note 22.

O. Transactions with related parties and major shareholders

	2012 £m	2011 £m
Supply of services to subsidiaries	200	192
Interest received from funding to subsidiaries	56	63
Amounts owed by subsidiaries	1,652	1,406
Amounts owed to subsidiaries	(2,746)	(2,238)
Amounts owed to other related parties	(4)	–

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 £67 million (2011: £66 million) on behalf of the Company, during the year. Interest is earned on certain loans to subsidiaries.

The Company recognised £200 million (2011: £192 million) for licensing the Sky brand name to subsidiaries.

The Company recognised dividends during the year from subsidiaries totalling £874 million (2011: £3,445 million).

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. For further details see note 30.

Share buy-back programme

During the year, the Company purchased, and subsequently cancelled, 30,679,157 ordinary shares held by News Corporation as part of its share buy-back programme. For further details, see note 26.

The Group's related party transactions are disclosed in note 30.

P. Events after the reporting period

On 25 July 2012, the Board agreed to seek the necessary approvals to return a further £500 million of capital to shareholders via a share buy-back programme. For further details, see note 31 to the consolidated financial statements.

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 2012.

Consolidated Income Statement	Year ended 30 June 2012 £m	Year ended 30 June 2011 £m	Year ended 30 June 2010 £m	Year ended 30 June 2009 £m	Year ended 30 June 2008 £m
Continuing operations					
Retail subscription	5,593	5,471	4,778	4,187	3,768
Wholesale subscription	351	323	238	206	181
Advertising	440	458	340	329	351
Installation, hardware and service	98	112	174	235	276
Other	309	233	179	200	198
Revenue(i)	**6,791**	**6,597**	**5,709**	**5,157**	**4,774**
Operating expense(ii)	(5,548)	(5,524)	(4,865)	(4,315)	(4,022)
Litigation settlement income	–	–	269	–	–
Operating profit	**1,243**	**1,073**	**1,113**	**842**	**752**
Share of results of joint ventures and associates	39	34	32	19	15
Investment income on litigation settlement	–	–	49	–	–
Investment income	18	9	3	35	47
Finance costs	(111)	(111)	(122)	(220)	(177)
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	**1,189**	**1,014**	**1,190**	**485**	**88**
Taxation	(283)	(256)	(294)	(194)	(184)
Profit (loss) for the year from continuing operations	**906**	**758**	**896**	**291**	**(96)**
Discontinued operations					
Profit (loss) for the year from discontinued operations	–	52	(18)	(32)	(31)
Profit (loss) for the year	**906**	**810**	**878**	**259**	**(127)**
Net profit (loss) recognised directly in equity	64	(8)	61	134	187
Total comprehensive income for the year	**970**	**802**	**939**	**393**	**60**
Earnings (loss) per share from profit (loss) for the year (in pence)					
Basic	52.6p	46.5p	50.4p	14.9p	(7.3)p
Diluted	52.2p	45.9p	50.1p	14.8p	(7.3)p
Dividends per share (in pence)	25.4p	23.3p	19.4p	17.6p	16.8p

Consolidated Balance Sheet	30 June 2012 £m	30 June 2011 £m	30 June 2010 £m	30 June 2009 £m	30 June 2008 £m
Non-current assets	3,234	3,025	2,818	2,632	2,384
Current assets	2,275	2,329	1,986	1,937	1,698
Total assets	5,509	5,354	4,804	4,569	4,082
Current liabilities	(2,098)	(1,912)	(1,707)	(2,194)	(1,893)
Non-current liabilities	(2,467)	(2,407)	(2,537)	(2,439)	(2,357)
Net assets (liabilities)	944	1,035	560	(64)	(168)
Number of shares in issue (in millions)	1,674	1,753	1,753	1,753	1,753

Group financial record – unaudited

continued

Statistics	Year ended 30 June 2012	Year ended 30 June 2011	Year ended 30 June 2010 (in thousands)	Year ended 30 June 2009	Year ended 30 June 2008
Distribution of Sky Channels					
TV homes	10,288	10,187	9,860	9,442	8,980
Wholesale homes(iii)(iv)	4,340	4,382	4,312	4,271	1,248
Total Sky pay homes	**14,628**	**14,569**	**14,172**	**13,713**	**10,228**
Sky Broadband homes	4,001	3,335	2,624	2,203	1,628
Sky Talk homes	3,768	3,101	2,367	1,850	1,241
Average number of full-time equivalent employees	17,937	16,006	16,439	14,922	14,145

Notes

(i) To provide a more relevant presentation, management has reclassified Sky Player and Sky Mobile revenue from other revenue to retail subscription 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 2012 is a credit of £31 million in relation to the News Corporation proposal consisting of costs incurred offset by the receipt of the break fee (see note 30). Also included are restructuring costs of £11 million which comprise severance payments in relation to approximately 35 senior roles as part of a restructuring initiative to improve operating efficiency.

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 the refund of import duty on set-top boxes paid out in prior years. This duty was recovered 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.

(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.

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 9 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.

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 5 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 16 to the consolidated financial statements.

During fiscal 2009, we recorded an impairment loss of £191 million (fiscal 2008: £616 million) in the carrying value of our equity investment in ITV.

Business combinations

During fiscal 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).

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).

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 24 to the consolidated financial statements.

Non-GAAP measures

All continuing operations

RECONCILIATION OF OPERATING PROFIT TO ADJUSTED OPERATING PROFIT AND ADJUSTED EBITDA

for the year ended 30 June 2012

	Notes	2012 £m	2011 £m	2010 £m
Operating profit		**1,243**	**1,073**	**1,113**
(Net recovery of) costs in relation to News Corporation proposal	3	(31)	15	–
Costs relating to restructuring exercise	3	11	–	32
Living TV restructuring costs	3	–	26	–
Recovery of import duty on set-top boxes	3	–	(41)	–
Litigation settlement income relating to claim against EDS		–	–	(269)
Legal costs relating to claim against EDS		–	–	1
Cancellation of accounts payable on settlement of claim against EDS		–	–	(5)
Adjusted EBITDA		**1,567**	**1,405**	**1,185**
Depreciation and amortisation		(344)	(332)	(338)
Costs relating to restructuring exercise included within depreciation and amortisation(i)		–	–	25
Adjusted operating profit		**1,223**	**1,073**	**872**

(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 2012

	Notes	2012 £m	2011 £m	2010 £m
Cash generated from operations	27	**1,737**	**1,569**	**1,626**
Interest received		17	7	57
Taxation paid		(254)	(219)	(319)
Dividends received from joint ventures and associates		39	29	30
Net funding to joint ventures and associates		(6)	(4)	(1)
Purchase of property, plant and equipment		(228)	(197)	(246)
Purchase of intangible assets		(229)	(226)	(183)
Interest paid		(125)	(124)	(156)
Free cash flow		**951**	**835**	**808**
Recovery of import duty on set-top boxes (after corporation tax)		(25)	–	–
(Net recovery of) costs in relation to News Corporation proposal (after corporation tax)		(13)	2	–
Receipt on disposal/closure of joint venture		(6)	–	(3)
Cash paid relating to restructuring exercise		3	6	–
Living TV restructuring costs		–	26	–
Litigation settlement income relating to claim against EDS (after corporation tax)		–	–	(229)
Legal costs relating to claim against EDS		–	–	1
Adjusted free cash flow		**910**	**869**	**577**

AVERAGE REVENUE PER USER (ARPU)

for the year ended 30 June 2012

	2012 £	2011 £	2010 £
ARPU as previously reported	**n/a**	**539**	**508**
Impact of Standalone Home Communications(i)	–	(5)	–
Benefit of zero-VAT magazine related income(ii)	–	(3)	(4)
Elimination of timing difference related to magazine closure(iii)	–	7	–
ARPU	**548**	**538**	**504**

(i) We have restated ARPU to include standalone home communications customers.
(ii) We previously recognised the benefit arising from the zero rated VAT treatment on a small portion of customer revenue attributable to the Sky magazine. Following closure of the magazine we have restated the comparatives to present on a like-for-like basis.
(iii) Following our decision to close the Sky customer magazine, a one-off timing upside was reversed which related to revenue recognition of the magazine element of subscription revenue. This equated to a £7 reduction to ARPU in 2011.

Shareholder information

Annual General Meeting

The Company's Annual General Meeting will be held on Thursday 1 November 2012 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 2013 will be published:

1 November 2012
31 January 2013*
2 May 2013*
31 July 2013*

* *provisional dates.*

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. Information on how to manage your shareholdings can be found at https://help.shareview.co.uk. The pages at this web address provide the following:

- Answers to commonly asked questions regarding shareholder registration;
- Links to downloadable forms, guidance notes, and Company history fact sheets;
- A choice of contact methods – via email, phone, or writing.

Alternatively, shareholders can 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.

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 information

continued

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
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 total customers over a given period that terminate their subscription in its entirety, net of former 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 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: a 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
MMDS	Multipoint Microwave Distribution Service
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
NOW TV	An internet streaming service available to anyone in the UK with an internet connection regardless of ISP. At launch on 17 July 2012, the service was available on devices including PC, Mac and selected Android smartphones with other devices and platforms to follow
NVN	New Voice Network
Ofcom	UK Office of Communications
PL	Premier League
Premium Channels	The Sky Premium Channels and the Premium Sky Distributed Channels

Glossary of terms

continued

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 Poker. com, Sky Living, 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 generally offered at scheduled times on our 42 dedicated linear channels
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 Go	Sky's retailed packages of television channels and on demand content made available via a broadband connection, including the version made available to mobile devices via a wireless or 3G connection
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 Sports F1, 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) and Sky 3D
Sky Store	Our pay-per-view, on demand movies rental service available via Sky Anytime, Sky Anytime$^+$ and Sky Go
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 paying subscriber to one or more of our DTH or Sky Go 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

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.

The 2012 BSkyB Annual Review and Annual Report are available to view or download online at www.sky.com/corporate

You can find out more about Sky's contribution to UK and Irish life at www.sky.com/thebiggerpicture and download the Summary Bigger Picture Report 2012.

If you would like advice regarding accessibility of this document, please contact 08442 410333 (textphone 08442 410535)

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