

# Sky Subscribers Services Limited

Annual Report and Accounts  
for the year ended 30 June 2008

Registered number 2340150

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## **Directors and Officers**

### **For the year ended 30 June 2008**

#### **Directors**

Sky Subscribers Services Limited's ("the Company's") present Directors and those who served during the year are as follows

D J Darroch  
N Bamford  
J R Murdoch (resigned 07 April 2008)  
A J Griffith (appointed 07 April 2008)

#### **Secretary**

D J Gormley

#### **Registered office**

Grant Way  
Isleworth  
Middlesex  
TW7 5QD

#### **Auditors**

Deloitte & Touche LLP  
London

## Directors' report

The Directors present their annual report on the affairs of the Company, together with the Accounts and Auditors' Report for the year ended 30 June 2008

### Business review and principal activities

The Company is a wholly owned subsidiary of British Sky Broadcasting Group plc ("BSkyB", together with its subsidiaries, the "Group") and operates together with BSkyB's other subsidiaries as a part of the Group

The Company's principal activities are to provide support services (including conditional access and subscriber management) and to act as an agent for the direct-to-home pay TV business of its fellow subsidiary undertaking, British Sky Broadcasting Limited ("BSkyB Limited") The Company also provides similar services to another fellow subsidiary undertaking and to third party broadcasters There have not been any significant changes in the Company's activities in the year under review The Directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year

As shown in the Company's income statement on page 9, the Company's revenue has increased by 12% over the prior year and profit for the year has increased to £73,049,700 (2007 £47,747,000)

The balance sheet on page 10 of the financial statements shows that the Company's financial position at the year end is, in terms of net assets, lower than at the prior year end The balance sheet shows that the Company's shareholder's equity at the year end of £178,780,000 was lower than at the prior year end A dividend of £109,000,000 was paid during the year (2007 nil) Details of amounts owed to its parent undertaking are shown in note 12 on page 24

There have been no significant events since the year end

The total number of UK and Ireland DTH subscribers increased by 398,000 in the year to 8,980,000 This was a result of DTH churn for the year of 10.4% (2007 12.4%), partly offset by a decrease in gross subscriber additions of 135,000 to 1,311,000 in the current year

### Principal risks and uncertainties

The balance sheet of the Company includes intercompany balances and the Company is therefore exposed to credit risk on these balances The intercompany balances of the Company are detailed in notes 11 and 12

### Cash flow risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates

### Credit risk

The Company's principal financial assets are bank balances and cash and trade and other receivables

The Company's credit risk is primarily attributable to its trade receivables The amounts presented in the balance sheet are net of allowances for doubtful receivables An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers

### Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the company relies on the Group treasury function, which has access to an undrawn £1,000m rolling credit facility to ensure ongoing liquidity

### Price risk

The Company is not exposed to significant price risk

### Interest rate risk

The Company is not exposed to significant interest rate risk

### Research and development

The Company undertakes research and development activities associated with software for its customer management systems

## Directors' report (continued)

### **Government regulation**

Access-related conditions have been imposed on SSSL in relation to the provision of conditional access services. These conditions include

- A requirement to provide conditional access services upon request, on fair and reasonable terms,
- Where a broadcaster in receipt of conditional access services from SSSL also provides programme services to providers of other electronic communications networks (e.g. cable operators), a requirement to cooperate with providers of such other electronic communications networks so that such providers are able to transcontrol (the process of changing a conditional access system) and re-transmit the programme services
- An obligation to keep separate financial accounts regarding activities as provider of conditional access services,
- Where conditional access products and systems are the subject of intellectual property rights, a requirement to make such products and systems available upon reasonable terms and at reasonable charges (e.g. the licensing of technology to manufacturers of digital decoders), and
- A requirement not to discriminate unduly against particular persons or against a particular description of persons

SSSL is currently designated as a regulated supplier of its activities in providing access control services to third parties on the Group's DTH platform and it is amongst other things, subject to the obligation to provide such access control services on fair, reasonable and non-discriminatory terms and not to favour related companies. This designation, set out in a continuation notice, will remain in place for as long as SSSL is considered to have significant market power. The deadline for comments on the consultation document was in January 2004. Ofcom has yet to publish its conclusions to this consultation, in the meantime, SSSL continues to be subject to the regulatory regime under this continuation notice.

### **Directors**

The Directors who served during the year are shown on page 2.

### **Payment policy**

The policy of the Company 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 Company to pay suppliers on a monthly basis. The Company had below 30 days' purchases outstanding at 30 June 2008 (2007: below 30 days), based on the total amount invoiced by trade suppliers during the year ended 30 June 2008.

### **Employment policies**

#### **Organisation**

The average monthly number of full-time equivalent persons employed by the Company during the year was 4,745 (2007: 5,084). The Company delivers diverse entertainment content and services, and we value the same diversity amongst our people.

Throughout the year the Company has continued to improve accessibility for all applicants. The directors invite those who would like to join the Company to tell us if they would require adjustments to their working environment during the selection processes. Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned.

Training and development focuses on talent management, leadership development, new technology, and improving the customer experience. Further improvements in e-learning have also ensured fast and cost efficient delivery of training and knowledge.

The Company has also continued to improve the rigour of our health and safety and occupational health approach. Our people surveys continue to show improving employee engagement and manager effectiveness.

#### **Talent management**

The Company has started to implement a new talent management framework, designed to address our present and future needs in talent resourcing, development and contingency planning.

#### **Recruitment**

The Company aims to recruit the highest calibre individuals, to continue to develop the business, addressing business targets and internal requirements. The directors aim to provide opportunities for our people to move around the Company, as well as actively sourcing the best external candidates at all levels.

#### **Training and Development**

The Company's focus is to develop its talent proactively, ensuring that it has the right people in place with the right skills and knowledge, in order to deliver on its business objectives. Strategically, the director's focus on attracting

## Directors' report (continued)

targeted groups, knowing who our most valued people are, and continuing to retain and develop these people, to ensure the Company has a strong talent pipeline to meet future challenges

The Company's training and development portfolio has increased, both in terms of content and depth. The core training modules include a wide range of courses, from Project Management to Managing Performance. In addition to these, numerous tailored programmes have also been delivered. The Company has also expanded our e-learning programme, which includes product knowledge, management and Health and Wellbeing topics.

The launch of the Company's HD service created a need to design a training and development programme for technical, engineering, operational, creative and support staff. A range of on and off-job training activities were designed and delivered, and as a result, the HD training programme has been short listed for a National Training Award.

In the current year, the Company launched Sky's Leadership Development Programme for senior managers. The Company also has an International Development programme, which provides opportunities for development through visits to other organisations, and sharing ideas and best practice.

The Company also launched a mentoring scheme, which is open to all members of staff – either as a mentee or as a mentor – providing internal development for all levels of staff.

### ***Effectiveness***

Through the year, a number of restructuring projects, process and effectiveness reviews have ensured that the Company remains appropriately shaped and skilled to drive growth in the future.

### ***Health, Safety and Wellbeing***

The Company's long-term Health, Safety and Wellbeing plan is integrated into all areas of the business. The Company has introduced a new occupational health system that allows a robust approach to health surveillance planning, and provides more accurate and comprehensive health data, meaning our resources can be better directed.

The Company's employee wellbeing strategy also provides opportunities for active involvement by our employees. The Sky health and wellbeing initiative "Feel Karma" is now embedded as a recognised programme that gives our people the tools, information and understanding to lead a healthy lifestyle and utilise our health services appropriately and efficiently.

Additionally, the Company offers employees a comprehensive support system and required adjustments for disability, ensuring employees are equipped to best fulfil their potential.

### ***Reward and benefits***

The Company offers an attractive and competitive reward and benefits package. This includes the BSKYB Pension Plan, life cover and disability benefits, the Sharesave scheme, a healthcare plan and complimentary Sky+ for all employees. Awards under the Management Long Term Incentive Plan share scheme are made to selected employees, and the Sharesave scheme is open to all permanent employees.

The Company's "Sky Choices" programme allows employees to make tax and National Insurance savings in areas such as childcare payments and mobile phones. It also supports the environment, by providing savings for a bicycle for travel to work, travel season ticket loans and the costs of personal carbon offsetting. The "Sky Benefits Extra" programme offers negotiated discounts on a variety of products and services for our employees.

### ***Involvement and Communication***

The Company encourages the involvement of its people in discussions on both current business initiatives and future plans. "Sky Forum" (an elected group of 70 employees) continues to play a key role in communication, representing the views and ideas of our employees, as well as consulting on health and safety. The Forum allows the Company to hear the views of its people through involvement in various interest groups. Senior management play an active role in responding to the topics raised through the Forum, and the directors, other senior executives and relevant managers regularly attend Forum meetings to talk about Sky's strategic priorities.

The "Sky People Survey" collects the views and opinions of all our people. Senior executives and management teams look at the results and feedback from this, and develop action plans. The Company has developed new performance appraisals, recognition programmes, training, communications, and improved the working space in many areas. Individual departments have also taken action to address specific issues to make the business more productive.

### ***Recognition***

The Company's annual "Team Sky" awards allow employees to nominate colleagues who have demonstrated Sky's values, with the winners receiving significant prizes. During the current year the Company also launched specific recognition programmes for each business area, enabling them to engage and recognise their people in a way that supports their business plans.

## Directors' report (continued)

### Auditors

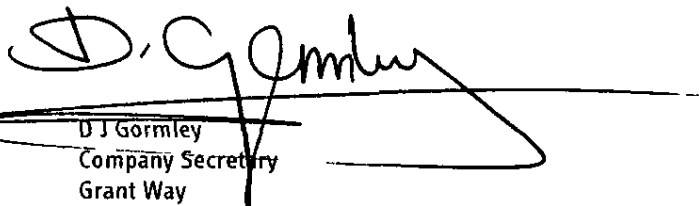
Each of the persons who is a director at the date of approval of this annual report confirms that

- So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- The director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Deloitte & Touche LLP have expressed their willingness to continue as auditors and a resolution to reappoint them will be proposed at the forthcoming annual General Meeting

By order of the Board,



D J Gormley  
Company Secretary  
Grant Way  
Isleworth  
Middlesex  
TW7 5QD

27 October 2008

## Statement of Directors' responsibility

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 1985.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to

- 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 proper accounting records that 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 1985. 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.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SKY SUBSCRIBERS SERVICES LIMITED**

We have audited the financial statements of Sky Subscribers Services Limited for the year ended 30 June 2008 which comprise the Income Statement, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 21. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 30 June 2008 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

### **Separate opinion in relation to IFRS**

As explained in Note 1 to the financial statements, the company in addition to complying with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the financial statements give a true and fair view, in accordance with IFRSs, of the state of the company's affairs as at 30 June 2008 and of its profit for the year then ended.

*Deloitte & Touche LLP*

**Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors  
London, United Kingdom

27 October 2008



# SKY SUBSCRIBERS SERVICES LIMITED

## Income Statement for the year ended 30 June 2008

	Notes	2008 £000	2007 £000
<b>Revenue</b>		<b>508,038</b>	454,930
Operating expense	2	(401,250)	(405,176)
<b>Operating profit</b>		<b>106,788</b>	49,754
Investment income	3	4,261	-
Finance costs	3	(781)	(677)
<b>Profit before tax</b>	4	<b>110,268</b>	49,077
Taxation	6	(37,218)	(1,330)
<b>Profit for the year</b>		<b>73,050</b>	47,747

The accompanying notes are an integral part of this income statement

## Statement of Changes in Equity for the year ended 30 June 2008

	Share capital £000	Share premium £000	Retained earnings £000	Total shareholders' equity £000
At 1 July 2006	-	100,000	64,098	164,098
Profit for the year	-	-	47,747	47,747
Share-based payment	-	-	1,194	1,194
Tax on items taken directly to equity	-	-	245	245
At 30 June 2007	-	100,000	113,284	213,284
Profit for the year	-	-	73,050	73,050
Dividends	-	-	(109,000)	(109,000)
Share-based payment	-	-	1,386	1,386
Tax on items taken directly to equity	-	-	60	60
<b>At 30 June 2008</b>	<b>-</b>	<b>100,000</b>	<b>78,780</b>	<b>178,780</b>

# SKY SUBSCRIBERS SERVICES LIMITED

## Balance Sheet as at 30 June 2008

	Notes	2008 £000	2007 £000
<b>Non-current assets</b>			
Intangible assets	7	111,264	133,226
Property, plant and equipment	8	43,376	45,338
Deferred tax assets	9	11,997	5,593
		<b>166,637</b>	<b>184,157</b>
<b>Current assets</b>			
Inventories	10	2,058	2,150
Trade and other receivables	11	2,611,245	1,027,578
Cash and cash equivalents		171	-
		<b>2,613,474</b>	<b>1,029,728</b>
<b>Total assets</b>		<b>2,780,111</b>	<b>1,213,885</b>
<b>Current liabilities</b>			
Borrowings	14	360	333
Current tax liability		-	6,638
Trade and other payables	12	2,589,727	980,842
Provisions	13	1,240	3,000
		<b>2,591,327</b>	<b>990,813</b>
<b>Non-current liabilities</b>			
Borrowings	14	5,940	6,300
Other payables		4,064	3,488
		<b>10,004</b>	<b>9,788</b>
<b>Total liabilities</b>		<b>2,601,331</b>	<b>1,000,601</b>
<b>Shareholders' equity</b>		<b>178,780</b>	<b>213,284</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,780,111</b>	<b>1,213,885</b>

The accompanying notes form an integral part of this income statement

These financial statements have been approved by the Board of Directors on 27 October and were signed on its behalf by



A J Griffith  
Director

27 October 2008

# SKY SUBSCRIBERS SERVICES LIMITED

## Cash Flow Statement for the year ended 30 June 2008

	Note	2008 £000	2007 £000
<b>Cash flows from operating activities</b>			
Cash generated from operations	17	144,185	32,641
Interest received		4,261	-
<b>Net cash from operating activities</b>		<b>148,446</b>	<b>32,641</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(10,899)	(13,068)
Purchase of intangible assets		(21,240)	(19,738)
<b>Net cash used in investing activities</b>		<b>(32,139)</b>	<b>(32,806)</b>
<b>Cash flows from financing activities</b>			
Interest paid		(205)	(663)
Loans from subsidiaries		503	542
Dividends paid to shareholders		(109,000)	-
<b>Net cash used in financing activities</b>		<b>(108,702)</b>	<b>(121)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>7,605</b>	<b>(286)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>(7,434)</b>	<b>(7,148)</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>171</b>	<b>(7,434)</b>

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

## **SKY SUBSCRIBERS SERVICES LIMITED**

### **1. Accounting policies**

Sky Subscribers Services Limited's (the "Company") is a limited liability company incorporated in England and Wales, and domiciled in the United Kingdom ("UK")

#### **a) Statement of compliance**

These financial statements are prepared in accordance with IFRS (including International Accounting Standards ("IAS") and interpretations issued by the International Accounting Standards Board ("IASB") and its committees) as adopted for use in the European Union ("EU"), the Companies Act 1985 and as issued by the IASB

The following IFRSs were adopted from the 1 July 2004, the date of transition to IFRS (the "Transition Date"), which is earlier than required under the IFRS transitional provisions IAS 32 "Financial Instruments Disclosure and Presentation", IAS 39 "Financial Instruments Recognition and Measurement", IFRS 2 "Share-based Payment" and IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"

#### **b) Basis of preparation**

The financial statements have been prepared on an historical cost basis (except for valuation of certain share options) and on a going concern basis

The Company maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal year 2008 this date was 29 June 2008, this being a 52 week year (fiscal year 2007: 1 July 2007, 52 week year). For convenience purposes, the Company continues to date its financial statements as of 30 June 2008

The Company has classified assets and liabilities as current when they are expected to be realised in, settled in, or intended for sale or consumption in, the normal operating cycle of the Company

#### **c) Intangible assets**

Research expenditure is recognised in the income statement as the expenditure is incurred. Development expenditure (relating to the application of research knowledge to plan or design new or substantially improved products for sale or use within the business) is recognised as an intangible asset from the point at which it is probable that the Company 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 the income statement as incurred.

Amortisation of an intangible asset begins when the asset is available for use, and is charged to the income statement through operating expenses on a straight-line basis over the intangible assets' estimated useful life, being a period of no more than ten years, unless the asset life is judged to be indefinite. If the useful life is indefinite or the asset is not yet available for use, no amortisation is charged and an impairment test is carried out at least annually.

#### **d) Property, plant and equipment ("PPE")**

##### **i. Owned assets**

Property, plant and equipment are stated at cost, net of accumulated depreciation and any impairment losses, (see accounting policy i), 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.

When an item of property, plant and equipment comprises major components having different useful economic lives, the components are accounted for as separate items of property, plant and equipment.

**1. Accounting policies (continued)**

**ii. Leased assets**

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are treated as property, plant and equipment

**iii. Depreciation**

Depreciation is provided to write off the cost, less estimated residual value, of property, plant and equipment on a straight-line basis over its estimated useful life. Land, and assets that are not yet available for use, are not depreciated.

Principal useful economic lives used for this purpose are

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

**e) Inventories**

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 FIFO basis.

**f) 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 Company assesses whether there is any objective evidence that any financial asset is impaired. Financial assets and liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the financial asset or liability. Financial assets are derecognised from the balance sheet when the Company's contractual rights to the cash flows expire or the Company transfers substantially all the risks and rewards of the financial asset. Financial liabilities are derecognised from the Company's balance sheet when the obligation specified in the contract is discharged or cancelled or expires.

In the current year, the Company adopted IFRS 7 "Financial Instruments: Disclosures" which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 "Presentation of Financial Statements".

**i. Trade and other receivables**

Trade and other receivables are non-derivative financial assets with fixed or determinable payments and are measured at amortised cost using the effective interest method. Trade and other receivables, with no stated interest rate, are measured at the original invoice amount if the effect of discounting is immaterial. 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.

**ii. Cash and cash equivalents**

Cash and cash equivalents include cash in hand, bank accounts, deposits receivable on demand and deposits with maturity dates of 3 months or less from the date of inception. Bank overdrafts that are repayable on demand and which form an integral part of the Company's cash management are included as a component of cash and cash equivalents where offset conditions are met.

**1. Accounting policies (continued)**

**f) Financial assets and liabilities (continued)**

**iii. 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.

**iv. 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.

**g) Impairment**

At each balance sheet date, and in accordance with IAS 36 "Impairment of Assets", the Company reviews the carrying amounts of all its assets excluding inventories (see accounting policy e), non-current assets classified as held for sale, financial assets (see accounting policy f) and deferred taxation (see accounting policy k) 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 exceeds its recoverable amount. 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.

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

**h) Revenue recognition**

Revenue, which excludes value added tax, represents the 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 recognised as follows:

- Installation, hardware and service revenue is recognised in the income statement when the goods and services are delivered.

**i) Employee benefits**

**Wages, salaries and social security contributions**

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.

**Pension obligations**

The Company 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 Company to the scheme in exchange for employee services rendered in that year. The assets of the schemes are held independently of the Company.

**1. Accounting policies (continued)**

**i) Employee benefits (continued)**

**Termination benefits**

Termination benefits are recognised as a liability when, and only when, the Company 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

**Equity compensation benefits**

The Company issues equity-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. The fair values of these 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. The fair value is recognised over the period during which employees become unconditionally entitled to the awards, subject to the Company's estimate of the number of awards which will lapse, either due to employees leaving the Company 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 at the date of grant 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 accordance with the transitional provisions in IFRS 1, and IFRS 2 "Share-based payment", the recognition and measurement principles in IFRS 2 have only been applied to options and awards granted after 7 November 2002 that had not vested by 1 January 2005. The Company took the option to adopt IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" early, in the year ended 30 June 2007.

**j) 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.

**The Company as lessor**

Sublease income from operating leases is recognised on a straight-line basis over the term of the lease.

**The Company as lessee**

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

Assets held under finance leases are recognised as assets of the Company 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.

**1. Accounting policies (continued)**

**k) Taxation, including deferred taxation**

The Company's liability for current tax is based on taxable profits 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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantially enacted at the balance sheet date

The carrying amount of deferred tax assets is reviewed at each balance sheet date and adjusted to reflect an amount that is "probable" to be realised based on the weight of all available evidence. Deferred tax is calculated at the rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets and liabilities are not discounted.

Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also included within equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

The standard rate of corporation tax changed from 30% to 28% in the UK with effect from 1 April 2008.

**l) Dividends**

Dividends are recognised in the retained earnings reserve in the period in which they are declared or paid.

**m) Reportable segments**

A reportable segment, as defined by IAS14 "Segmental Reporting", is a distinguishable business or geographic component of the Company, that provides products or services, that are subject to risks and rewards that are different from those of segments. The Company has no reportable segments within its business.



**1. Accounting policies (continued)**

**n) Accounting standards, interpretations and amendments to published standards not yet effective**

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published and are mandatory for the Company's accounting periods beginning on or after 1 July 2008, or later periods. These new standards are listed below:

- IFRIC 12 "Service Concession Arrangements" (effective from 1 January 2008)
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective from 1 January 2008)
- IFRIC 13 "Customer Loyalty Programmes" (effective from 1 July 2008)
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective from 1 October 2008)
- IAS 1 (revised) "Presentation of Financial Statements" (effective from 1 January 2009)
- IAS 32 "Financial Instruments – Presentation" (effective 1 January 2009)
- Amendment to IAS 23 "Borrowing Costs" (effective from 1 January 2009)
- IFRS 8 "Operating Segments" (effective from 1 January 2009)
- IFRIC 15 "Agreements for the Construction of Real Estate" (effective from 1 January 2009)
- Amendments to IFRS 2 "Share-Based Payments" (effective from 1 January 2009)
- Amendments to IFRS 1 "First Time Adoption of International Financial Reporting Standards" (effective 1 January 2009)
- IFRS 3 "Business Combinations" (effective from 1 July 2009)
- IAS 27 "Consolidated & Separate Financial Statements" (effective from 1 July 2009)

The Directors currently anticipate that the adoption of these standards, amendments and interpretations in future periods will not have a material impact on the financial statements of the Company other than additional disclosure requirements.

**o) Critical accounting policies and the use of judgement**

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

**(i) Revenue**

- Selecting the appropriate timing for, and amount of, revenue to be recognised requires judgement. This may involve estimating the fair value of consideration before it is received and determining the stage of completion of a transaction at the balance sheet date.
- Judgement 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.

## SKY SUBSCRIBERS SERVICES LIMITED

### 1. Accounting policies (continued)

#### (ii) Property, plant and equipment and intangible assets (see notes 7 and 8)

– The assessment of the useful economic lives of these assets requires judgement. Depreciation is charged to the income statement based on the useful economic life selected. This assessment requires estimation of the period over which the Company will benefit from the assets.

– Determining whether the carrying amount of these assets has any indication of impairment also requires judgement. If an indication of impairment is identified, further judgement 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 judgement. This requires a determination of whether the assets will result in future benefits to the Company. In particular, internally generated intangible assets must be assessed during the development phase to identify whether the Company has the ability and intention to complete the development successfully.

#### (iii) Deferred tax (see note 9)

– The key area of judgement 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 taxable profits are more likely than not to arise against which the deferred tax can be utilised.

### 2. Operating expense

	2008 £000	2007 £000
Support services	398,533	403,983
Administration	2,717	1,193
	401,250	405,176

Support services include subscriber management and conditional access

### 3 Investment income and finance costs

	2008 £000	2007 £000
<b>Investment income</b>		
Intercompany interest receivable (i)	4,261	-
	4,261	-
<b>Finance costs</b>		
Finance lease interest	781	680
Other finance costs	-	(3)
	781	677

(i) Intercompany interest is receivable on a loan made to BSkyB Finance Ltd at an interest rate of 1 month LIBOR+0.75%

#### 4. Profit before taxation

Profit before taxation is stated after charging

	2008 £000	2007 £000
Cost of inventories recognised as an expense	52,942	56,780
Depreciation of property, plant and equipment	13,898	19,740
Amortisation of intangible assets	43,202	40,280
Rentals on operating leases and similar arrangements	1,195	1,316

Amounts payable to the auditors are analysed below

	2008 £000	2007 £000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	15	15
Total audit fees	15	15
Customer management systems development	-	862
Total non-audit fees	-	862

Amounts paid to the auditors for audit and audit-related services were borne by another Group undertaking in both 2008 and 2007

During the year, the Company's auditors received £322,229 (2007 £862,000) in respect of customer management systems development services. The Audit Committee of BSkyB was satisfied throughout the year that the objectivity and independence of Deloitte & Touche 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.

#### 5 Employee benefits

	2008 £000	2007 £000
Wages and salaries	109,645	110,019
Social security costs	9,068	8,700
Costs of employee share option schemes (i)	1,387	1,193
Contributions to the BSkyB Pension Plan ("the Pension Plan") (ii)	2,834	2,809
	122,934	122,721

(i) The expense recognised for employee share option schemes relates wholly to equity-settled share-based payments

(ii) The Company operates a defined contribution pension scheme through the Pension Plan. The pension charge for the year represents the cost of contributions payable by the Company to the schemes during the year. The Company's amount payable to the scheme at 30 June 2008 was £855,000 (2007 £467,000). The average monthly number of full-time equivalent persons (including temporary employees) employed by the Company during the year was as follows

	2008 Number	2007 Number
Subscriber management	4,700	5,044
Administration	45	40
	4,745	5,084

**6 Taxation**

**a) Taxation recognised in the income statement**

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
<b>Current tax expense</b>		
Current year	<b>45,852</b>	6,638
Prior Year	<b>(1,870)</b>	-
<b>Total current tax</b>	<b>43,982</b>	6,638
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	<b>(929)</b>	(2,995)
Increase in estimate of recoverable deferred tax asset	<b>(5,835)</b>	(2,313)
<b>Total deferred tax</b>	<b>(6,764)</b>	(5,308)
<b>Taxation charge</b>	<b>37,218</b>	1,330

**b) Deferred tax recognised directly in equity**

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Deferred tax (charge) credit relating to stock options	<b>(360)</b>	245

**c) Reconciliation of total tax charge**

The tax expense for the year is lower (2007 lower) than the standard rate of corporation tax in the UK (29.5%) applied to profit before tax. The differences are explained below:

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Profit before tax	<b>110,268</b>	49,077
Profit before tax multiplied by standard rate of corporation tax in the UK of 29.5% (2007 30%)	<b>32,529</b>	14,723
<b>Effects of</b>		
Non-deductible expense	<b>292</b>	258
Disallowance in respect of share based remuneration	<b>291</b>	(89)
Losses surrendered (by) other Group companies for no charge	-	(11,249)
Transfer pricing adjustments on inter-company loan agreements	<b>11,811</b>	-
Adjustments in respect of prior years	<b>(7,705)</b>	(2,313)
<b>Taxation</b>	<b>37,218</b>	1,330

All taxation relates to UK corporation tax.

The adjustment in respect of prior years relates to transfer pricing adjustments in respect of inter-company loan agreements.

7. Intangible assets

	Internally generated intangible assets £000	Other intangible assets £000	Other intangible assets not yet available for use £000	Total £000
<b>Cost</b>				
At 1 July 2006	21,650	204,156	25,143	250,949
Additions	2,288	5,768	11,276	19,332
Disposals	-	(494)	-	(494)
Transfers	-	183	(183)	-
At 30 June 2007	23,938	209,613	36,236	269,787
Additions	25	4,993	16,222	21,240
Disposals	-	-	-	-
At 30 June 2008	23,963	214,606	52,458	291,027
<b>Amortisation</b>				
At 1 July 2006	13,367	83,408	-	96,775
Amortisation for the year	1,921	38,359	-	40,280
Disposals	-	(494)	-	(494)
At 30 June 2007	15,288	121,273	-	136,561
Amortisation for the year	2,276	40,926	-	43,202
Disposals	-	-	-	-
At 30 June 2008	17,564	162,199	-	179,763
<b>Carrying amounts</b>				
At 1 July 2006	8,283	120,748	25,143	154,174
At 30 June 2007	8,650	88,340	36,236	133,226
At 30 June 2008	6,399	52,407	52,458	111,264

The Company's intangible assets include internal and external spend on software associated with its customer management systems, software licences, capitalised development costs, copyright licences, customer lists, patents and brands

8. Property, plant and equipment

	Land and freehold buildings (i) £000	Leasehold improvements £000	Equipment, furniture and fittings £000	Assets not yet available for use £000	Total £000
<b>Cost</b>					
At 1 July 2006	18,271	762	74,158	-	93,191
Additions	13	-	12,081	8	12,102
Disposals	-	-	(13,285)	-	(13,285)
At 30 June 2007	18,284	762	72,954	8	92,008
Additions	-	-	9,792	2,144	11,936
Disposals	-	-	-	-	-
At 30 June 2008	18,284	762	82,746	2,152	103,944
<b>Depreciation</b>					
At 1 July 2006	6,914	342	32,959	-	40,215
Depreciation	706	153	18,881	-	19,740
Disposals	-	-	(13,285)	-	(13,285)
At 30 June 2007	7,620	495	38,555	-	46,670
Depreciation	706	142	13,050	-	13,898
Disposals	-	-	-	-	-
At 30 June 2008	8,326	637	51,605	-	60,568
<b>Carrying amounts</b>					
At 1 July 2006	11,357	420	41,199	-	52,976
At 30 June 2007	10,664	267	34,399	8	45,338
At 30 June 2008	9,958	125	31,141	2,152	43,376

(i) The amounts shown include assets under finance leases with a net book value of £4,614,000 (2007 £4,948,000) Depreciation charged during the year on such assets was £334,000 (2007 £334,000) Depreciation was not charged on £634,000 of land (2007 £634,000)

9. Deferred tax

i) Recognised deferred tax assets

	Fixed asset timing differences £000	Short-term timing differences £000	Share- based payments timing differences £000	Total £000
At 1 July 2007	3,749	885	959	5,593
Charge to income	7,155	(139)	(252)	6,764
Credit to equity	-	-	(360)	(360)
At 30 June 2008	10,904	746	347	11,997

## SKY SUBSCRIBERS SERVICES LIMITED

### 10. Inventories

	2008	2007
	£000	£000
Raw materials and consumables	2,058	2,150
	<b>2,058</b>	<b>2,150</b>

### 11. Trade and other receivables

	2008	2007
	£000	£000
Trade receivables	5,038	3,937
Amounts owed by fellow subsidiary undertakings	2,594,167	1,007,238
Amounts receivable from joint ventures and associates	66	62
Other receivables	-	15
VAT	8,471	10,512
Prepayments	3,503	4,705
Accrued income	-	1,109
	<b>2,611,245</b>	<b>1,027,578</b>

The ageing of the Company's net trade receivables past due or subject to impairment is as follows

	2008	2007
	£000	£000
Up to thirty days past due date	72	401
Thirty to sixty days past due date	221	133
Sixty to ninety days past due date	79	12
Ninety to 120 days past due date	-	17
More than 120 days past due date	54	323
	<b>426</b>	<b>886</b>

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. No allowances have been recorded against amounts receivable from group companies as they have been assessed to be fully recoverable.

Amounts received from fellow subsidiary undertakings are repayable on demand and are non-interest bearing. The current year charge to the income statement in respect of provisions for impairment of trade receivables was £21,500,000 (2007: £11,426,000).

The Directors consider that the carrying amount of trade and other receivables at 30 June 2007 and 30 June 2008 approximates to their fair value.

The Company is exposed to credit risk on its trade and other receivables, however the Company does not have any significant concentrations of credit risk on its trade and other receivables, with exposure spread over a large number of counterparties and customers. Within the Company there is a concentration of risk within amounts receivable from other Group companies.

On 25 January 2002, the Company entered into a reciprocal revolving credit facility ("RCF") arrangement with BSKyB Finance Limited ("BSkyB Finance") for £500 million. At 30 June 2008, the amount provided under this facility, which is included within the amounts owed by fellow subsidiary undertakings, was nil (2007: £128,394,000).

## SKY SUBSCRIBERS SERVICES LIMITED

### 11. Trade and other receivables (continued)

On 6 October 2005, the Company entered into a RCF arrangement with BSkyB Finance for £250 million. At 30 June 2008, the account provided under this facility, which is included within the amounts owed by fellow subsidiary undertakings, was nil (2007: £140,096,000).

On 6 October 2005, the Company entered into a RCF arrangement with BSkyB Finance for £500 million. At 30 June 2008, the account provided under this facility, which is included within the amounts owed by fellow subsidiary undertakings, was nil (2007: £295,170,000).

On 29 June 2008, the Company has entered into new revolving credit facilities ("RCF") with BSkyB Ltd.

For each RCF, the Company is the lender and the other Group company is the borrower. These RCFs are repayable on demand and are non-interest bearing. A reciprocal RCF agreement was also entered into with the Company, on the same day for the same amount and with the same terms as the above facilities, with the Company as the borrower and the other Group company as the lender.

### 12 Trade and other payables

	2008 £000	2007 £000
Bank loans and overdrafts	-	7,434
Trade payables	9,714	9,649
Amounts due to fellow subsidiary undertakings	2,532,114	760,918
Amounts due to ultimate parent undertaking	-	143,245
Amounts due to other related parties	10,755	7,133
Social security and PAYE	2,468	2,277
Other payables	2,246	2,124
Accruals	32,430	46,937
Deferred income	-	1,125
	<b>2,589,727</b>	<b>980,842</b>

Other amounts due to the ultimate parent undertaking and to fellow subsidiary undertakings are repayable on demand and are non-interest bearing.

The Directors consider that the carrying amount of trade and other payables approximates to their fair values at 30 June 2007 and 30 June 2008. Trade payables principally comprise amounts outstanding for ongoing costs.

During the year the company settled its previous RCF facilities with BSkyB Finance Ltd. On 11 April 2008 the Company entered into new revolving credit facilities ("RCF") with BSkyB Finance Ltd for £250 million.

For each RCF, the Company is the borrower and BSkyB Finance Ltd is the lender. These RCFs are repayable on demand and are non-interest bearing. A reciprocal RCF agreement was also entered into with the Company, on the same day for the same amount and with the same terms as the above facilities, with the Company as the borrower and the other Group company as the lender.



## SKY SUBSCRIBERS SERVICES LIMITED

### 13. Provisions

	2008 £000	2007 £000
Restructuring	1,240	-
Redundancy	-	3,000
	1,240	3,000

During the year, the Company provided £1,240,000 for the expected costs of restructuring and related expenses. The provision is expected to be utilised within one year.

### 14. Borrowings and non-current other payables

	2008 £000	2007 £000
<b>Current borrowings</b>		
Obligations under finance leases (i)	360	333
<b>Non-current borrowings</b>		
Obligations under finance leases (i)	5,940	6,300

#### (i) Finance leases

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

	2008 £000	2007 £000
Within one year	1,081	1,081
Between one and two years	1,081	1,081
Between two and three years	1,353	1,081
Between three and four years	1,443	1,353
Between four and five years	1,443	1,443
After five years	12,887	14,330
	19,288	20,369
Future finance charges on finance lease liabilities	(8,536)	(9,895)
<b>Present value of finance lease liabilities</b>	<b>10,752</b>	<b>10,474</b>

Financing arrangements are in connection with the contact centre in Dunfermline. During the year, repayments of £805,757 (2007: £1,081,000) 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 9.6% and expires in September 2020.

### 15. Share capital

	2008 £	2007 £
<b>Authorised</b>		
100 (2007: 100) ordinary shares of £1 each	100	100
<b>Allotted, called-up and fully paid</b>		
3 (2007: 3) ordinary shares of £1 each	3	3

The company has one class of ordinary shares which carry equal voting rights and no contractual right to receive payment.

# 15. Share capital (continued)

## Share option and contingent share award schemes

The Group operates various equity-settled share option schemes (the "Schemes") for certain employees. The awards outstanding can be summarised as follows:

Scheme	2008 Number of ordinary shares	2007 Number of ordinary shares
Executive Share Option Scheme options(i)	1,543,275	1,765,457
Sharesave Scheme options(ii)	1,279,972	1,541,024
Management LTIP awards(iii)	405,623	410,520
KCP awards(iv)	-	649
	<b>3,228,870</b>	<b>3,717,650</b>

### i) Executive Share Option Scheme options

Included within the total Executive Share Option Scheme options outstanding at 30 June 2008, are 548,198 options (2007: 689,474) which may be exercised in the final year before their lapsing date, regardless of meeting performance criteria, provided that the employee remains in employment with the Group, and 995,077 options (2007: 1,075,983) to which no performance criteria are attached, other than the requirement that the employee remains in employment with the Group. The contractual life of all Executive Share Option Scheme options is ten years.

Grants under the Executive Share Option Scheme were made on an annual basis to selected employees, with the exercise price of options being equal to BSkyB's share price on the date of grant. For those options with performance conditions, growth in EPS has to exceed growth in the Retail Prices Index plus 3% per annum in order for awards to vest. Options vest over a period of up to four years from the date of grant.

### ii) Sharesave Scheme options

All Sharesave Scheme options outstanding at 30 June 2008 and 30 June 2007 have no performance criteria attached, other than the requirement that the employee remains in employment with the Group. Options granted under the Sharesave scheme must be exercised within six months of the relevant award vesting date.

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

### iii) Management LTIP awards

All Management LTIP awards outstanding at 30 June 2008 vest only if performance conditions are met. Awards granted under the Management LTIP must be exercised within one year of the relevant award vesting date.

The Group grants awards to selected employees under the Management LTIP. Awards under the scheme are granted in the form of a nil-priced option, and are satisfied using market-purchased shares. The awards vest in full or in part dependent on the satisfaction of specified performance targets. 30% of the award vests dependent on TSR performance over a three-year performance period, relative to the constituents of the FTSE 100 at the time of grant, and the remaining 70% vests dependent on performance against operational targets. Awards exercised under the Management LTIP can only be satisfied by the issue of market-purchased shares.

# 15. Share capital (continued)

## iv) KCP awards

All KCP awards outstanding at 30 June 2008 and 30 June 2007 vest only if performance conditions are met. The contractual life of all KCP awards is ten years.

Designated managers participated in the KCP, which was a replica scheme of the LTIP, with the same performance conditions. Awards exercised under the KCP can only be satisfied by the issue of shares purchased in the market.

The movement in share awards outstanding is summarised in the following table:

	2008 Number of shares under option	2008 Weighted average exercise price	2007 Number of shares under option	2007 Weighted average exercise price
Outstanding at 1 July	3,717,650	£5.85	3,751,122	£6.42
Granted during the year	590,732	£4.08	830,823	£2.88
Exercised during the year	(576,642)	£3.63	(315,147)	£4.75
Forfeited during the year	(502,870)	£5.30	(549,148)	£5.87
Outstanding at 30 June	3,228,870	£6.02	3,717,650	£5.85

The weighted average market price of BSkyB's shares at the date of exercise for share options exercised during the year was £6.45 (2007: £5.94). The following table summarises information about share awards outstanding at 30 June 2008:

Awards Outstanding		
Range of Exercise Prices	Number	Weighted average remaining contractual life
£0.00-£1.00	405,623	2.0
£3.00-£4.00	200,382	1.7
£4.00-£5.00	639,014	2.2
£5.00-£6.00	649,190	4.1
£6.00-£7.00	181,662	4.4
£7.00-£8.00	109,221	3.4
£9.00-£10.00	1,043,780	2.4
	3,228,872	2.8

The exercise prices of options outstanding at 30 June 2008 ranged from nil to £9.90.

## Information for awards granted during the year

The weighted average fair value of share options granted during the year, as estimated at the date of grant, was £3.07 (2007: £2.71). This was calculated using the Black-Scholes share option pricing model, except for awards which have market-based performance conditions, where a Monte-Carlo simulation model was used, and for grants of nil-priced options, which were treated as the award of a free share.

The Monte-Carlo simulation model reflected the historical volatilities of BSkyB's share price and those of all other companies to which the BSkyB's performance would be compared, over a period equal to the vesting period of the options. The fair value of nil-priced options granted during the year was measured on the basis of the market-price of

## SKY SUBSCRIBERS SERVICES LIMITED

### 15. Share capital (continued)

BSkyB's shares on the date of grant, discounted for expected dividends which would not be received over the vesting period of the options.

#### Weighted average fair value assumptions

The following weighted average assumptions were used in these option pricing models

	2008	2007
Share price	<b>£6.86</b>	£5.60
Exercise price	<b>£4.08</b>	£2.88
Expected volatility	<b>22.8%</b>	24.9%
Expected life	<b>3.6 years</b>	3.4 years
Expected dividends	<b>2.3%</b>	2.2%
Risk-free interest rate	<b>5.0%</b>	4.8%

Expected volatility was determined by calculating the historical volatility of BSkyB's share price, over a period equal to the expected life of the options. Expected life was based on the contractual life of the options, adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

### 16. Financial risk management objectives and policies

The accounting classification of each class of the Company's financial assets and financial liabilities, together with their fair values, is as follows

	Loans and receivables £000	Other liabilities £000	Total carrying value £000	Total fair values £000
<b>At 30 June 2007</b>				
Trade and other payables	-	(979,717)	(979,717)	(979,717)
Obligations under finance leases		(6,633)	(6,633)	(6,633)
Trade and other receivables	1,012,361	-	1,012,361	1,012,361
Cash and cash equivalents	-	-	-	-
<b>At 30 June 2008</b>				
Trade and other payables	-	(2,589,727)	(2,589,727)	(2,589,727)
Obligations under finance leases		(6,300)	(6,300)	(6,300)
Trade and other receivables	2,599,271	-	2,599,271	2,599,271
Cash and cash equivalents	171	-	171	171

The fair values of financial assets and financial liabilities are determined as follows

- The fair value of other financial assets and financial liabilities 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,

The Company's principal market risks exposures to changes in interest rates and foreign exchange rates, which arise both from the Company's intercompany balances and from its operations

# **16. Financial risk management objectives and policies (continued)**

## **Interest rate risk**

The sensitivity analysis below has been determined based on the exposure to interest rates for 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. A 1 percentage point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 1 percentage point higher and all other variables were held constant, the Company's profit for the year ended 30 June 2008 would increase by £10,811,728 (2007: no impact).

## **Liquidity risk**

The Group's financial liabilities are shown in note 12 and note 13.

The following table analyses the Group's financial liabilities 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 trade and other payables and provisions.

	Less than 12 months £000	Between one and two years £000	Between two and five years £000	More than 5 years £000
<b>At 30 June 2008</b>				
Trade and other payables	2,589,727	-	-	-
Obligations under finance leases	1,081	1,081	4,239	12,887
<b>At 30 June 2007</b>				
Trade and other payables	979,717	-	-	-
Obligations under finance leases	1,081	1,081	3,877	14,330

## **Capital risk management**

The capital structure of the Company consists of equity attributable to equity holders of the parent company, comprising issued capital, reserves and retained earnings.

Risk and treasury management is governed by British Sky Broadcasting Group plc's policies approved by its board of directors.

## **Additional information**

At 30 June 2008, the carrying value of financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss, was nil (2007: nil).

17. Notes to the Cash Flow Statement

a) Reconciliation of profit before taxation to cash generated from operations

	2008 £000	2007 £000
<b>Profit before taxation</b>	<b>110,268</b>	<b>49,077</b>
Depreciation of property, plant and equipment	13,898	19,740
Amortisation of intangible assets	43,202	40,280
Net finance costs	(3,480)	677
	<b>163,888</b>	<b>109,774</b>
(Increase) in trade and other receivables	(1,583,667)	(399,012)
Decrease (increase) in inventories	92	(814)
Increase in trade and other payables	1,565,632	319,693
(Decrease) increase in provisions	(1,760)	3,000
<b>Cash generated from operations</b>	<b>144,185</b>	<b>32,641</b>

18. Contracted commitments, contingencies and guarantees

a) Future expenditure contracted for but not provided in the accounts

	Year ending 30 June						Total at 30 June 2008 £000	Total at 30 June 2007 £000
	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	After 5 years £000		
Tangible asset	370	-	-	-	-	-	370	549
Intangible asset	850	-	-	-	-	-	850	1,152
	<b>1,220</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,220</b>	<b>1,701</b>

b) Contingent assets

The Company has served a claim for a material amount against an information and technology solutions provider, which provided services to the Company as part of the Company's investment in customer management systems software and infrastructure. The amount which may be recovered by the Company will not be finally determined until resolution of the claim.

c) Guarantees

The Company, together with British Sky Broadcasting Limited, BSkyB Investments Limited, BSkyB Finance UK plc and BSkyB Publications Limited, has given joint and several guarantees in relation to the £1 billion RCF held by its parent undertaking, British Sky Broadcasting Group plc.

The Company, together with British Sky Broadcasting Limited, BSkyB Finance UK plc, BSkyB Publications Limited and BSkyB Investments Limited has given joint and several guarantees in relation to the issue in the public debt market of US\$600million of 6.875% Guaranteed Notes repayable in February 2009, £100 million of 7.750% Guaranteed Notes repayable in July 2009, US\$650 million of 8.200% Guaranteed Notes repayable in July 2009 and £300million of 6.000% Guaranteed Notes repayable in May 2027 and issued by its parent undertaking, British Sky Broadcasting Group plc.

The Company, together with British Sky Broadcasting Limited, BSkyB Investments Limited and BSkyB Publications Limited has given joint and several guarantees in relation to the issue in the public debt market of US\$750 million of £5.625% Guaranteed Notes repayable in October 2015, £400 million of 5.750% Guaranteed Notes repayable in October 2017 and US\$350 million of 6.500% Guaranteed Notes repayable in October 2035 and issued by BSkyB Finance UK plc. On 22 January 2007 the Company, together with British Sky Broadcasting Group plc, BSkyB Investments Limited, BSkyB Publications Limited, BSkyB Limited and BSkyB Finance UK plc entered into a guarantee to secure the obligations and

**18. Contracted commitments, contingencies and guarantees (continued)**

liabilities of Sky Holdings Limited in respect of £16 million loan notes issued by Sky Holdings Limited, following the purchase of 365 Media Group plc

**19. Operating lease commitments**

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

	2008	2007
	£000	£000
Within one year	1,195	1,036
Between one and two years	1,150	459
Between two and three years	444	459
Between three and four years	444	444
Between four and five years	444	444
After five years	1,892	2,332
	5,569	5,174

All of operating leases relate to property. The rents payable under these leases are subject to renegotiation at the various intervals specified in the leases.

**20. Transactions with related parties**

**a) Major shareholders of BSkyB**

The Company conducts business transactions with companies that are part of the News Corporation group ("News Corporation"), a major shareholder of BSkyB, the ultimate parent undertaking of the Company.

	2008	2007
	£000	£000
Purchases of goods/services by the Company	67,840	67,390

**Purchases of goods and services from News Corporation companies**

During the year, the Company purchased smart cards and encryption services from News Corporation companies.

**b) Key management**

The Company has a related party relationship with the Directors of the Company as key management. At 30 June 2008, there were three (2007: three) key managers, all of whom were Directors of the Company.

**c) Transactions with fellow Group undertakings**

The Company conducts business transactions with other fellow Group undertakings.

	2008	2007
	£000	£000
Supply of services by the Company	457,692	393,568

**20. Transactions with related parties (continued)**

For details of amounts owed by and owed to fellow subsidiary undertakings, see note 11 and note 12

Services supplied to fellow subsidiary undertakings

- Subscriber management services
- Conditional access services

The Company's treasury function is responsible for liquidity management across the Company's operations. It is standard practice for the company to lend and borrow cash to and from subsidiaries as required. Under this policy the Company has received £706,219,000 (2007 £230,822,000) from various Group companies to settle liabilities during the year.

**d) Transactions with related parties**

A director of the ultimate parent undertaking is also a director of NDS Limited. During the year, the Company had transactions with the related party amounting to £67,904,000 (2007 £70,674,000). This principally relates to access fee costs.

**21) Ultimate parent undertaking**

The Company is a wholly-owned subsidiary undertaking of British Interactive Broadcasting Holdings Limited ("BiB"), a company incorporated in Great Britain and registered in England and Wales.

The ultimate parent company is British Sky Broadcasting Group plc, a company incorporated in Great Britain and registered in England and Wales.

The only group in which the results of the Company are consolidated is that headed by British Sky Broadcasting Group plc. The consolidated accounts of this Group are available to the public and may be obtained from The Company Secretary, British Sky Broadcasting Group plc, Grant Way, Isleworth, Middlesex, TW7 5QD.