

# Sky Subscribers Services Limited

Annual report and financial statements  
for the year ended 30 June 2010

Registered number 2340150



## Directors and Officers

For the year ended 30 June 2010

### Directors

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

D J Darroch  
A J Griffith  
R M Webster

### Secretary

D J Gormley

### Registered office

Grant Way  
Isleworth  
Middlesex  
TW7 5QD

### Auditors

Deloitte LLP  
Chartered Accountants and Statutory Auditors  
London  
United Kingdom

## Directors' Report

The Directors present their Annual Report on the affairs of the Company, together with the financial statements and Auditors' Report for the year ended 30 June 2010

### 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 statement of comprehensive income on page 9, the Company's revenue has increased by 2% over the prior year, due in large part to an increase in telemarketing, customer management and call handling revenues, offset by a decrease in conditional access revenues. Total operating costs increased by 12%, mostly due to increased subscriber and call handling costs due to increased volumes and higher smartcard costs due to the amortisation of the development costs of the latest generation of smartcards.

The settlement of the Group's litigation with Electronic Data Systems (EDS) resulted in £318,000,000 income for the Group, of which £197,784,000 was recognised by the company. £156,861,000 of this was allocated to litigation settlement income, and a further £40,923,000 was allocated to investment income on litigation settlement.

Investment income for the year decreased by 79%. The prior year investment income was exceptionally high due to four intercompany interest bearing loans that were made in 2008/09 and earned significant interest until they were repaid in October 2008. In 2008/09 an impairment charge of £11,973,000 was recognised with respect to the investment in Athena Court. A review of the investment in 2009/10 found that it was not further impaired. The effect of these movements less the tax charge for the year of £73,662,000 (2009: £3,738,000) contribute to the overall increase in profit for the year to £222,117,000 (2009: £140,727,000).

The balance sheet on page 11 of the financial statements shows that the Company's financial position at the year end is, in terms of net assets, higher than at the prior year end. Total non-current assets of £159,052,000 (2009: £169,625,000) decreased by 6% due to decreases in both intangible assets and property, plant and equipment due to amortisation and depreciation exceeding additions in the year. Current assets of £1,092,624,000 (2009: £528,590,000) increased by 107% due primarily to the increase in intercompany receivables resulting from new loans advanced and trading balances. There is also an increase in current liabilities to £871,892,000 (2009: 367,877,000) which is also driven by increased intercompany balances. The Company's shareholder's equity at the year end is £370,794,000 which is higher than at the prior year end. A dividend of £175,000,000 was paid during the year (2009: £nil).

There have been no significant events since the year-end.

## Directors' Report (continued)

The total number of UK and Ireland Direct-to-Home ("DTH") subscribers increased by 418,000 in the year to 9,860,000. This was a result of consistent DTH churn for the year of 10.3% (2009: 10.3%) and consistent gross subscriber additions of 1,416,000 (2009: 1,415,000).

### **Key performance indicators (KPIs)**

The BSkyB Group manages its operations on a divisional basis. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the Company.

### **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 13 and 14.

### **Financial risk management objectives and policies**

#### ***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 assets are intercompany balances. The Company's credit risk is primarily attributable to these balances.

#### ***Liquidity risk***

The Company relies on the Group Treasury function to manage its liquidity and ensure that sufficient funds are available for ongoing operations and future developments. The Group currently has access to an undrawn £750 million revolving credit facility which is due to expire on 30 July 2013. The Company benefits from this liquidity through intra-group facilities and loans.

### **Going concern**

The Company's business activities, together with the factors likely to affect its future development and performance are set out in the Business Review. The Directors' Report details the financial position of the Company, as well as the Company's objectives and policies, and details of its exposures to credit risk and liquidity risk.

After making enquiries, the directors have formed a judgement at the time of approving the financial statements that the Company will have access to adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

### **Directors**

The Directors who served during the year are shown on page 1.

### **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 in accordance with its standard payment terms of 45 days. The Company had below 45 days' purchases outstanding at 30 June 2010 (2009: below 45 days), based on the total amount invoiced by trade suppliers during the year ended 30 June 2010.

## Directors' Report (continued)

### **Employment policies**

#### ***Organisation***

The average monthly number of full-time equivalent persons employed by the Company during the year was 5,321 (2009 4,808) 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 Directors' focus on attracting 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

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## Directors' Report (continued)

The Company is now in its third cycle of the 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.

## Directors' Report (continued)

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.

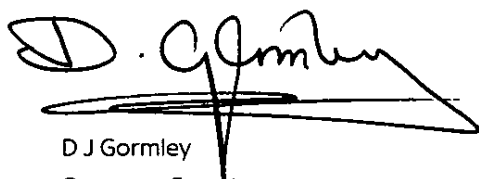
### **Auditors**

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

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

Deloitte 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

20 October 2010

## 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 have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements 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.



# Auditors' report

## **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 2010 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

### **Respective responsibilities of Directors and auditors**

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

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view and of the Company's affairs as at 30 June 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Separate opinion in relation to IFRSs as issued by the IASB**

As explained in note 1 to the financial statements, the Company in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

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

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion 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 matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements 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.



Timothy Powell (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors

London, United Kingdom

20 October 2010

# Statement of Comprehensive Income

For the year ended 30 June 2010

	Notes	2010 £'000	2009 £'000
<b>Revenue</b>		<b>530,656</b>	522,114
Operating expense	2	<b>(437,715)</b>	(392,478)
Litigation settlement income	3	<b>156,861</b>	-
<b>Operating profit</b>		<b>249,802</b>	129,636
Investment income on litigation settlement	3	<b>40,923</b>	-
Investment income	4	<b>5,764</b>	27,457
Impairment of Group Investments	10	-	(11,973)
Finance costs	4	<b>(710)</b>	(655)
<b>Profit before tax</b>		<b>295,779</b>	144,465
Taxation	7	<b>(73,662)</b>	(3,738)
<b>Profit for the year attributable to equity shareholders</b>		<b>222,117</b>	140,727

The accompanying notes are an integral part of this statement of comprehensive income, for the year ended 30 June 2010, the Company did not have any other items of other comprehensive income. All results relate to continuing operations.

## Statement of Changes in Equity

For the year ended 30 June 2010

	Share capital £'000	Share Premium £'000	Retained earnings £'000	Total shareholders' equity £'000
<b>At 1 July 2008</b>	-	100,000	78,780	178,780
Profit for the year	-	-	140,727	140,727
Dividends	-	-	-	-
Share-based payment	-	-	1,542	1,542
Tax on items taken directly to equity	-	-	(499)	(499)
<b>At 30 June 2009</b>	-	<b>100,000</b>	<b>220,550</b>	<b>320,550</b>
Profit for the year	-	-	222,117	222,117
Dividends	-	-	(175,000)	(175,000)
Share-based payment	-	-	2,406	2,406
Tax on items taken directly to equity	-	-	721	721
<b>At 30 June 2010</b>		<b>100,000</b>	<b>270,794</b>	<b>370,794</b>

The accompanying notes are an integral part of this Statement of Changes in Equity

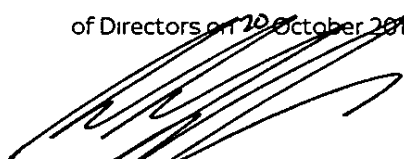
# Balance Sheet

As at 30 June 2010

	Notes	2010 £'000	2009 £'000
<b>Non-current assets</b>			
Intangible assets	8	94,573	103,777
Property, plant and equipment	9	46,027	47,043
Investment in Group companies	10	11,196	11,196
Deferred tax assets	11	7,256	7,609
		<b>159,052</b>	169,625
<b>Current assets</b>			
Inventories	12	877	5,202
Trade and other receivables	13	1,091,747	523,388
		<b>1,092,624</b>	528,590
<b>Total assets</b>		<b>1,251,676</b>	698,215
<b>Current liabilities</b>			
Borrowings	16	1,871	7,541
Trade and other payables	14	869,478	360,166
Provisions	15	543	170
		<b>871,892</b>	367,877
<b>Non-current liabilities</b>			
Borrowings	16	8,814	9,539
Other payables		176	249
		<b>8,990</b>	9,788
<b>Total liabilities</b>		<b>880,882</b>	377,665
Share capital		-	-
Share premium		100,000	100,000
Reserves		270,794	220,550
<b>Shareholders' equity attributable to equity shareholders</b>		<b>370,794</b>	320,550
<b>Total liabilities and shareholders' equity</b>		<b>1,251,676</b>	698,215

The accompanying notes are an integral part of this balance sheet

The financial statements of Sky Subscribers Services Limited, registered number 2340150 were approved by the board of Directors on 20 October 2010 and were signed on its behalf by



A J Griffith

Director

20 October 2010

## Cash Flow Statement

For the year ended 30 June 2010

			(Restated)
		2010	2009
	Note	£'000	£'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	19	<b>712,836</b>	403,236
Interest received		<b>46,687</b>	27,457
<b>Net cash from operating activities</b>		<b>759,523</b>	430,693
<b>Cash flows from investing activities</b>			
Investment in Group companies		-	(23,169)
Purchase of property, plant and equipment		<b>(7,931)</b>	(13,449)
Purchase of intangible assets		<b>(36,387)</b>	(27,970)
<b>Net cash used in investing activities</b>		<b>(44,318)</b>	(64,588)
<b>Cash flows from financing activities</b>			
Interest paid		<b>(844)</b>	(795)
Loans made to from subsidiaries		<b>(533,100)</b>	(372,011)
Dividend paid to shareholders		<b>(175,000)</b>	-
<b>Net cash used in financing activities</b>		<b>(708,944)</b>	(372,806)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>6,261</b>	(6,701)
<b>Cash and cash equivalents at the beginning of the year</b>		<b>(6,530)</b>	171
<b>Cash and cash equivalents at the end of the year</b>		<b>(269)</b>	(6,530)

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

## Notes to financial statements

### 1. Accounting policies

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

#### a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), the Companies Act 2006. In addition, the Company also complied with IFRS as issued by the International Accounting Standards Board ("IASB")

#### b) Basis of preparation

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

The Company maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal year 2010, this date was 27 June 2010, this being a 52 week year (fiscal year 2009: 28 June 2009, 52 week year, fiscal year 2008: 29 June 2008, 52 week year). For convenience purposes, the Company continues to date its financial statements as at 30 June.

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

IAS 1 Revised (2007) "Presentation of Financial Statements"

IAS 27 Revised (2008) "Consolidated and Separate Financial Statements"

Amendment to IFRS 2 "Share-based Payment – Vesting Conditions and Cancellations"

The Company has taken advantage of the exemption from preparing the consolidated accounts afforded by section 400 of the Companies Act 2006, because it is a wholly-owned subsidiary of BSkyB which prepares consolidated accounts which are publicly available (see note 23).

To improve the clarity to users, the Company has changed the classification of certain cash flows and adjusting items in the Cash Flow Statement and the Note to the Cash Flow Statement (note 19) for the year ended 30 June 2010. To allow comparability, the Company has restated the Cash Flow Statement for the year ended 30 June 2009 on the same basis. The Balance Sheet as at 30 June 2009 and as at 30 June 2008 has not been affected.

#### 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.

## Notes to financial statements

### 1. Accounting policies (continued)

#### c) Intangible assets (continued)

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 asset's estimated useful life, being a period of no more than 10 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 g), 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.

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.

##### 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
Leasehold improvements	Lower of lease term or life of the asset
Equipment, furniture and fixtures	3 to 10 years

#### e) Inventories

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

## Notes to financial statements

### 1. Accounting policies (continued)

#### **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, cancelled or expires.

#### **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 three 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.

#### **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), financial assets (see accounting policy f) and deferred taxation (see accounting policy l) to determine whether there is any indication that any of those assets have suffered an impairment loss.



## Notes to financial statements

### 1. Accounting policies (continued)

#### g) Impairment (continued)

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) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation to make a probable transfer of economic benefits as a result of past events. The amounts recognised represent the Company'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 market rate adjusted for risks specific to the liability.

#### i) 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.

#### j) 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.

##### 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.

## Notes to financial statements

### 1 Accounting policies (continued)

#### j) Employee benefits (continued)

##### 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 has taken the option to adopt IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" early, in the year ended 30 June 2008.

#### k) 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

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. 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.

#### l) Taxation, including deferred taxation

The Company'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.

## Notes to financial statements

### 1. Accounting policies (continued)

#### l) Taxation, including deferred taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, 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.

#### m) Dividends

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

#### n) Critical accounting policies

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.

##### (ii) Property, plant and equipment and intangible assets (see notes 8 and 9)

– 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.

## Notes to financial statements

### 1. Accounting policies (continued)

#### n) Critical accounting policies (continued)

– 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 11)

– 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.

#### o) 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 but are only effective for our accounting periods beginning on or after 1 July 2010 or later periods. These new pronouncements are listed below:

- Improvements to IFRSs 2009 – various standards (effective 1 January 2010)
- Amendments to IFRS 2 “Share Based Payment – Group Cash-settled Share-based Payment Transactions” (effective 1 January 2010)
- Amendment to IAS 32 “Financial Instruments – Presentation – Classification of Rights Issues” (effective 1 February 2010)
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective 1 July 2010)
- Improvements to IFRSs 2010 – various standards (effective 1 July 2010 and 1 January 2011)
- IAS 24 Revised (2009) “Related Party Disclosures” (effective 1 January 2010)
- Amendment to IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” (effective 1 January 2011)
- IFRS 9 “Financial Instruments” (effective 1 January 2013)

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

## Notes to financial statements

### 2. Operating expense

	2010 £'000	2009 £'000
Support services	411,226	388,128
Administration	26,489	4,350
	<b>437,715</b>	<b>392,478</b>

Support services include subscriber management and conditional access

### 3. Litigation settlement income and investment income on litigation settlement

On 26 January 2010, the Technology and Construction Court ("TCC") gave judgment in the litigation between Electronic Data Systems ("EDS") and the Company and its fellow group undertaking, BSkyB Ltd. The litigation related to EDS' former role as a supplier to the Group as part of the Group's customer relationship management ("CRM") project.

On 7 June 2010, EDS and the Group fully and finally settled the litigation between them and all related claims (including for damages, costs and interest) for a total amount of £318,000,000.

The Group has allocated £156,861,000 of the total amount to litigation settlement income in the Company, based on the Group's estimate of the costs in this Company which related to the CRM project.

The Company has allocated a further £40,923,000 to investment income on litigation settlement in the Company. This allocation was based on the Group's estimate of the TCC's likely award of interest on the Company's lost cash flows since the end of EDS' role as a supplier to the Group in March 2002.

The balance of £120,216,000 has been allocated to BSkyB Ltd.

### 4. Investment income and finance costs

	2010 £'000	2009 £'000
<b>Investment income</b>		
Intercompany interest receivable <sup>(i)</sup>	5,764	27,457
<b>Finance costs</b>		
Finance lease interest <sup>(ii)</sup>	710	655

## Notes to financial statements

### 4. Investment income and finance costs (continued)

(i) Intercompany interest is receivable on loans made to the following group companies

- BSkyB Finance Limited at an interest rate of 1 month LIBOR +0.75% (note 13), and
- Loans made to BSkyB Limited bearing interest at 3 month LIBOR-10 basis points, 6 month LIBOR +0.75%, 1 month LIBOR+0.75%, and 7.74% respectively, which were settled during the year ended 30 June 2009 (note 13)

(ii) Finance lease interest payable on financing arrangements in connection with the contact centre in Dunfermline which bear interest at a rate of 8.5% (note 16)

### 5. Profit before taxation

<b>Profit before taxation is stated after charging (crediting):</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Cost of inventories recognised as an expense	<b>12,338</b>	11,131
Depreciation of property, plant and equipment	<b>9,157</b>	8,969
Amortisation of intangible assets	<b>45,846</b>	35,457
Rentals on operating leases and similar arrangements	<b>1,277</b>	1,180

### Audit fees

Amounts paid to the auditors for audit services of £15,000 (2009 £15,000) were borne by another Group subsidiary in 2010 and 2009. No amounts for other services have been paid to the auditors.

### 6. Employee benefits

<b>Employee benefits for the Company during the year</b>	<b>2010</b>	<b>2009</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	<b>132,717</b>	117,080
Social security costs	<b>11,038</b>	9,903
Costs of employee share option schemes (i)	<b>2,406</b>	1,542
Contributions to the BSkyB Pension Plan ("the Pension Plan") (ii)	<b>4,238</b>	3,873
	<b>150,399</b>	132,398

(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 scheme during the year. The Company's amount payable to the scheme at 30 June 2010 was £946,000 (2009 £826,000).

The average monthly number of full-time equivalent persons (including temporary employees) employed by the Company during the year was 5,747 (2009 4,808).

## Notes to financial statements

### 7. Taxation

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

	2010	2009
	£'000	£'000
<b>Current tax expense</b>		
Current year	84,166	45,282
Adjustments in respect of prior years	(11,538)	(45,852)
Total current tax	72,628	(570)
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(414)	(1,081)
Decrease in estimate of recoverable deferred tax asset	1,448	5,389
Total deferred tax	1,034	4,308
<b>Taxation</b>	<b>73,662</b>	<b>3,738</b>

#### b) Tax recognised directly in equity

	2010	2009
	£'000	£'000
Current tax credit (charge) relating to stock options	40	-
Deferred tax credit (charge) relating to stock options	681	(80)
	721	(80)

#### c) Reconciliation of total tax charge

The tax expense for the year is lower (2009 lower) than the standard rate of corporation tax in the UK (28%) applied to profit before tax. The differences are explained below.

	2010	2009
	£'000	£'000
Profit before tax	295,779	144,465
Profit before tax multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	82,818	40,450
Effects of		
Non-deductible expense	373	3,552
Disallowance in respect of share-based remuneration	561	199
Adjustments in respect of prior years	(10,090)	(40,463)
<b>Taxation</b>	<b>73,662</b>	<b>3,738</b>

All taxation relates to UK corporation tax.

The adjustment in respect of prior years relates to transfer pricing adjustments on intra-group transactions and the receipt of additional group relief for no consideration (2009 transfer pricing adjustments in respect of intercompany loan agreements).

## Notes to financial statements

### 8. Intangible assets

	Internally generated intangible assets	Software development (external)	Software licences	Other intangible assets	Other Intangible assets not yet available for use	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>						
At 1 July 2008	23,963	175,994	38,307	305	52,458	291,027
Additions	5,464	2,605	862	-	19,039	27,970
Disposals	-	-	-	-	-	-
Transfers	-	50,673	-	-	(50,673)	-
At 30 June 2009	29,427	229,272	39,169	305	20,824	318,997
Additions	6,780	1,893	1,725	18	26,226	36,642
Disposals	-	(2,460)	(148)	(55)	-	(2,663)
<b>At 30 June 2010</b>	<b>36,207</b>	<b>228,705</b>	<b>40,746</b>	<b>268</b>	<b>47,050</b>	<b>352,976</b>
<b>Amortisation</b>						
At 1 July 2008	17,564	133,761	28,221	217	-	179,763
Amortisation for the year	1,632	30,717	3,058	50	-	35,457
At 30 June 2009	19,196	164,478	31,279	267	-	215,220
Amortisation for the year	3,187	39,746	2,881	32	-	45,846
Disposals	-	(2,460)	(148)	(55)	-	(2,663)
<b>At 30 June 2010</b>	<b>22,383</b>	<b>201,764</b>	<b>34,012</b>	<b>244</b>	<b>-</b>	<b>258,403</b>
<b>Carrying amounts</b>						
At 1 July 2008	6,399	42,233	10,086	88	52,458	111,264
At 30 June 2009	10,231	64,794	7,890	38	20,824	103,777
<b>At 30 June 2010</b>	<b>13,824</b>	<b>26,941</b>	<b>6,734</b>	<b>24</b>	<b>47,050</b>	<b>94,573</b>

The estimated future amortisation charge on finite-lived intangible assets for each of the next five years is set out below. It is likely that amortisation will vary from the figures below as the estimate does not include the impact of any future investments, disposals or capital expenditure.

(£'000)	2011	2012	2013	2014	2015
Estimated amortisation charge	27,548	23,699	17,815	15,441	8,895



# Notes to financial statements

## 9. Property, plant and equipment

	Land and freehold buildings £'000	Leasehold improvements £'000	Equipment, furniture and fittings £'000	Assets not yet available for use £'000	Total £'000
<b>Cost</b>					
At 1 July 2008	18,284	762	82,746	2,152	103,944
Additions	330	-	5,427	6,879	12,636
Disposals	-	-	-	-	-
At 30 June 2009	18,614	762	88,173	9,031	116,580
Additions	47	-	6,326	1,768	8,141
Disposals	-	-	(18,549)	-	(18,549)
<b>At 30 June 2010</b>	<b>18,661</b>	<b>762</b>	<b>75,950</b>	<b>10,799</b>	<b>106,172</b>
At 1 July 2008	8,326	637	51,605	-	60,568
Depreciation	706	114	8,149	-	8,969
Disposals	-	-	-	-	-
At 30 June 2009	9,032	751	59,754	-	69,537
Depreciation	720	11	8,426	-	9,157
Disposals	-	-	(18,549)	-	(18,549)
<b>At 30 June 2010</b>	<b>9,752</b>	<b>762</b>	<b>49,631</b>	<b>-</b>	<b>60,145</b>
<b>Carrying amounts</b>					
At 1 July 2008	9,958	125	31,141	2,152	43,376
At 30 June 2009	9,582	11	28,419	9,031	47,043
<b>At 30 June 2010</b>	<b>8,909</b>	<b>-</b>	<b>26,319</b>	<b>10,799</b>	<b>46,027</b>

## Notes to financial statements

### 10. Fixed asset investments

Details of the principal investments of the Company are as follows

Name	Country of incorporation	Description and proportion of shares held (%)	Principal activity
<b>Direct holdings</b>			
Athena Court Property Unit Trust	UK	95.02% of total units	Property letting

On 8 September 2008, the entire unit holdings in Athena Court Property Unit Trust ("Trust") were acquired by the Group. SSSL acquired 230,737 units, representing 95.02% of the total units in the Trust for £23,169,392.

The remaining 4.98% of the total units in the Trust are held by another Group company.

On review at 30 June 2009, it was determined that the carrying value of the Athena Court property owned by the trust was impaired due to economic conditions surrounding the UK property markets, and the carrying value of SSSL's investment in the Trust has been reduced to £11,196,000 accordingly.

On 30 June 2010 the carrying value of the property and the Company's investment in the Trust were reviewed again and were not found to be impaired.

### 11. Deferred tax

#### Recognised deferred tax assets

	Fixed asset timing differences	Short-term timing differences	Share-based payments timing differences	Total
	£'000	£'000	£'000	£'000
At 1 July 2009	5,891	913	805	7,609
Charge to income	(238)	(367)	(429)	(1,034)
Credit to equity	-	-	681	681
<b>At 30 June 2010</b>	<b>5,653</b>	<b>546</b>	<b>1,057</b>	<b>7,256</b>

There are no unrecognised deferred tax liabilities.

### 12. Inventories

	2010 £'000	2009 £'000
Raw materials and consumables	877	5,202

## Notes to financial statements

### 13. Trade and other receivables

	2010 £'000	2009 £'000
Gross trade receivables	7,236	5,878
Less provision for impairment of receivables	(5,228)	-
Net trade receivables	2,008	5,878
Amounts receivable from other group companies	1,073,842	502,806
Amounts receivable from joint ventures and associates	115	55
VAT	9,195	8,321
Prepayments	6,587	6,328
	1,091,747	523,388

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

	2010 £'000	2009 £'000
Up to thirty days past due date	627	2,194
Thirty to sixty days past due date	381	251
Sixty to ninety days past due date	16	48
Ninety to 120 days past due date	3	-
More than 120 days past due date	-	39
	1,027	2,532

#### Provisions for doubtful debts

	2010 £'000	2009 £'000
Balance at beginning of year	-	-
Amounts utilised	-	-
Income statement charge	5,228	-
Balance at end of year	5,228	-

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value

#### Amounts receivable from other group companies

There are amounts due from other group companies totalling £247,227,000 (2009 £209,289,000) that are trade receivables, these balances are non-interest bearing and are repayable on demand

## Notes to financial statements

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

On 11 April 2008 the Company entered into a revolving credit a loan agreement of £250 million with BSKyB Finance Limited, whereby the Company was lender and BSKyB Finance Limited was borrower. This loan is repayable on demand. Interest is payable at 1 month LIBOR+0.75%. On 26 June 2009 the agreed limit was extended to £700 million. The amount outstanding at year end in relation to this facility is £581,511,000 (2009: £246,197,000).

In addition the company is owed a further £245,104,000 (2009: £47,320,000) of non-interest bearing loans receivable from BSKyB Finance Limited which are repayable on demand.

On 29 June 2008 a number of new loans were created between SSSL and BSKyB Limited. All loans were repayable on demand and were non-interest bearing with the exception of the following:

- £396million at an interest rate of 7.74%
- £356million at an interest rate of 3 month LIBOR-10 Basis points
- £292million at an interest rate of 1 month LIBOR+0.75%
- £90million at an interest rate of 6 months LIBOR+0.75%

These loans were all settled on 30 October 2008 when the Company entered into a set off agreement with BSKyB Limited, setting off all the Company's loan receivables with BSKyB Limited against its trade payables from BSKyB Limited.

The Company is exposed to credit risk on its trade and other receivables. The Company does not have any significant concentrations of credit risk, with third parties, as the exposure is 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.

No allowances have been recorded against amounts receivable from group companies as they have been assessed to be fully recoverable.

### 14. Trade and other payables

	2010 £'000	2009 £'000
Trade payables	18,343	17,520
Amounts payable to other group companies	796,095	283,491
Amounts owed to other related parties	11,262	14,275
Social Security and PAYE	2,929	3,109
Other payables	769	1,256
Accruals	40,080	40,515
	<b>869,478</b>	<b>360,166</b>

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

Amounts due to fellow subsidiary undertakings are repayable on demand and are non-interest bearing.

## Notes to financial statements

### 15 Provisions

	At 1 July 2008	Provided during the year	Utilised during the year	At 30 June 2009	Provided during the year	Utilised during the year	At 30 June 2010
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Restructuring	1,240	-	(1,240)	-	543	-	543
Other	-	170	-	170	-	(170)	-
	1,240	170	(1,240)	170	543	(170)	543

### 16. Borrowings

	2010 £'000	2009 £'000
<b>Current borrowings</b>		
Bank loans and overdrafts	269	6,530
Obligations under finance leases	1,602	1,011
	<b>1,871</b>	<b>7,541</b>
<b>Non-current borrowings</b>		
Obligations under finance leases	8,814	9,539

### Finance leases

The minimum lease payments under finance leases fall due as follows

	2010 £'000	2009 £'000
Within one year	1,602	1,011
Between one and two years	1,350	1,265
Between two and three years	1,350	1,350
Between three and four years	1,350	1,350
Between four and five years	1,012	1,350
After five years	9,354	10,704
	<b>16,018</b>	<b>17,030</b>
Future finance charges on finance lease liabilities	(5,602)	(6,480)
<b>Present value of finance lease liabilities</b>	<b>10,416</b>	<b>10,550</b>

Financing arrangements are in connection with the contact centre in Dunfermline. During the year, repayments of £1,011,000 (2009: £1,027,000) 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 8.5% and expires in September 2020.

## Notes to financial statements

### 17. 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	Available- for-sale investments £'000	Other liabilities £'000	Total carrying value £'000	Total fair values £'000
<b>At 30 June 2010</b>					
Trade and other payables	-	-	(869,478)	(869,478)	(869,478)
Obligations under finance leases	-	-	(10,416)	(10,416)	(10,416)
Bank loans and overdrafts	-	-	(269)	(269)	(269)
Trade and other receivables	1,075,965	-	-	1,075,965	1,075,965
Cash and cash equivalents	-	-	-	-	-
Investment in Group companies	-	11,196	-	11,196	11,196
<b>At 30 June 2009</b>					
Trade and other payables	-	-	(360,166)	(360,166)	(360,166)
Obligations under finance leases	-	-	(10,550)	(10,550)	(10,550)
Bank loans and overdrafts	-	-	(6,530)	(6,530)	(6,530)
Trade and other receivables	508,739	-	-	508,739	508,739
Cash and cash equivalents	-	-	-	-	-
Investment in Group companies	-	11,196	-	11,196	11,196

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

- The fair value of 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 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 cash and cash equivalents is equivalent to book value due to the short-term nature of these instruments

## Notes to financial statements

### 17. Financial risk management objectives and policies (continued)

#### Liquidity risk

The Company's financial liabilities are shown in notes 14 and 16

The following table analyses the Company'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

	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 2010</b>				
Trade and other payables	869,478	-	-	-
Bank loans and overdrafts	269	-	-	-
Obligations under finance leases	1,602	1,350	3,712	9,354
<b>At 30 June 2009</b>				
Trade and other payables	360,166	-	-	-
Bank loans and overdrafts	6,530	-	-	-
Obligations under finance leases	1,011	1,265	4,050	10,704

#### 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

#### Credit risk

The Company is exposed to default risk amounting to cash and cash equivalents of £nil (2009: £nil)

The Company's maximum exposure to credit risk on trade receivables is the carrying amounts disclosed in note 13

#### 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 2010 would increase by £5,815,000 (2009: increase by £2,451,965)

## Notes to financial statements

### 18. Share capital

	2010 £	2009 £
Authorised		
100 (2009 100) ordinary shares of £1 each	100	100
Allotted, called-up and fully paid		
3 (2009 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

#### Share option and contingent share award schemes

The Company operates various equity-settled share option schemes (the "Schemes") for certain employees

The awards outstanding can be summarised as follows

Scheme	2010 Number of ordinary shares	2009 Number of ordinary shares
Executive Share Option Scheme options (i)	1,220,933	1,403,888
Sharesave Scheme options (ii)	1,446,444	1,604,287
All employee awards (iii)	558,010	643,644
Management LTIP awards (iv)	559,502	680,189
Management Co-Investment LTIP awards (v)	6,196	-
	3,791,085	4,332,008

#### (i) Executive Share Option Scheme options

Included within the total Executive Share Option Scheme options outstanding at 30 June 2010, are 370,721 options (2009 493,799) 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 Company. Where performance criteria are achieved, the options may be exercised immediately following the end of the vesting period (being the term over which the performance criteria are required to be met). The remaining 850,212 options (2009 910,089) have no performance criteria attached, other than the requirement that the employee remains in employment with the Company. The contractual life of all Executive Share Scheme options is ten years.

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



## Notes to financial statements

### 18. Share capital (continued)

#### (ii) Share save options

All Sharesave Scheme options outstanding at 30 June 2010 and 30 June 2009 have no performance criteria attached, other than the requirement that the employee remains in employment with the Company. 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 Company to make an invitation to employees to participate in the scheme following the announcement of the end of year results.

#### (iii) All Employee awards

The All Employee awards outstanding at 30 June 2010 and 30 June 2009 have no performance criteria attached, other than the requirement that the employee remains in employment with the Company. Awards granted under the All Employee award will be exercised upon the award vesting date.

The Company granted the All Employee award to all permanent employees on 5 February 2009. Awards under the scheme are granted in the form of a nil-priced option and are satisfied using market-purchased shares.

#### (iv) Management LTIP awards

All Management LTIP awards outstanding at 30 June 2010 and 30 June 2009 vest only if performance conditions are met. Awards granted under the Management LTIP must be exercised within one year of the relevant award vesting date.

The Company grants awards to selected employees under the Management LTIP. Awards under this scheme mirror the LTIP, with the same performance conditions. Awards exercised under the Management LTIP can only be satisfied by the issue of market-purchased shares.

#### (v) Management Co-investment LTIP awards

All Management Co-Investment LTIP awards outstanding at 30 June 2010 vest only if performance conditions are met. Awards granted under the Management Co-Investment LTIP must be exercised within one year of the relevant awards 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.

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

	<b>2010</b>	<b>2010</b>	<b>2009</b>	<b>2009</b>
	<b>Number of</b>	<b>Weighted</b>	<b>Number of</b>	<b>Weighted</b>
	<b>shares</b>	<b>average</b>	<b>shares</b>	<b>average</b>
	<b>under option</b>	<b>exercise price</b>	<b>under option</b>	<b>exercise price</b>
Outstanding at 1 July	<b>4,332,008</b>	<b>£4.40</b>	3,228,870	£6.02
Granted during the year	<b>756,869</b>	<b>£2.84</b>	1,748,020	£1.64
Exercised during the year	<b>(709,063)</b>	<b>£2.42</b>	(85,938)	£3.78
Forfeited during the year	<b>(451,624)</b>	<b>£3.88</b>	(523,151)	£5.27
Expired during the year	<b>(137,105)</b>	<b>£5.07</b>	(35,793)	£4.62
Outstanding at 30 June	<b>3,791,085</b>	<b>£4.49</b>	4,332,008	£4.40

## Notes to financial statements

### 18. Share capital (continued)

The weighted average market price of the Company's shares at the date of exercise for share options exercised during the year was £5.50 (2009: £4.59)

The following table summarises information about share awards outstanding at 30 June 2010

Range of Exercise Prices	Awards Outstanding	
	Number	Weighted average remaining contractual life
£0.00-£1.00	1,123,709	1.83
£3.00-£4.00	636,998	2.52
£4.00-£5.00	612,300	3.01
£5.00-£6.00	309,455	2.35
£6.00-£7.00	116,797	3.18
£7.00-£8.00	97,756	1.36
£9.00-£10.00	894,070	0.43
	<b>3,791,085</b>	<b>1.88</b>

The exercise prices of options outstanding at 30 June 2010 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 £2.78 (2009: £2.64). 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 the BSkyB's share price and those of all other companies to which 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 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

	2010	2009
Share Price	<b>£5.68</b>	£4.48
Exercise Price	<b>£2.84</b>	£1.64
Expected volatility	<b>28.7%</b>	22.5%
Expected life	<b>3.3 years</b>	3.4 years
Expected dividend	<b>3.1%</b>	3.8%
Risk-free interest rate	<b>2.1%</b>	4.1%

## Notes to financial statements

### 18. Share capital (continued)

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 options, adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

### 19 Notes to the Cash Flow Statement

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

	2010 £'000	2009 £'000
<b>Profit before taxation</b>	<b>295,779</b>	144,465
Depreciation of property, plant and equipment	<b>9,157</b>	8,969
Amortisation of intangible assets	<b>45,846</b>	35,457
Share-based payment expense	<b>2,406</b>	1,542
Impairment of Group investments	-	11,973
Net finance income	<b>(45,977)</b>	(26,802)
	<b>307,211</b>	175,604
(Increase) decrease in trade and other receivables	<b>(35,259)</b>	1,028,061
Decrease (increase) in inventories	<b>4,324</b>	(3,144)
Increase (decrease) in trade and other payables	<b>436,187</b>	(796,215)
Increase (decrease) in provisions	<b>373</b>	(1,070)
<b>Cash generated from operations</b>	<b>712,836</b>	403,236

## Notes to financial statements

### 20. Capital contracted commitments, contingencies and guarantees

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

	Year ending 30 June					After 5 years	Total at 30 June	Total at 30 June
	2011	2012	2013	2014	2015		2010	2009
	£'000	£'000	£'000	£'000	£'000		£'000	£'000
Property, plant and equipment	1,339	-	-	-	-	-	<b>1,339</b>	2,443
Intangible asset	18,236	17,548	17,844	18,056	18,056	40,627	<b>130,367</b>	176,146
Smartcards	48,078	48,549	49,368	49,954	49,954	162,351	<b>408,254</b>	491,000
Overheads	14,078	2,972	1,404	1,432	1,460	4,559	<b>25,905</b>	-
	<b>81,731</b>	<b>69,069</b>	<b>68,616</b>	<b>69,442</b>	<b>69,470</b>	<b>207,537</b>	<b>565,865</b>	<b>669,589</b>

#### b) 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 £750 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, Sky In-Home Service Limited and BSkyB Investments Limited has given joint and several guarantees in relation to the issue in the public debt market of US\$600 million of 6.875% Guaranteed Notes repayable in November 2018, US\$750 million of 6.100% Guaranteed Notes repayable in February 2018, and £300 million of 6.000% Guaranteed Notes repayable in May 2027 and issued by its parent undertaking, BSkyB

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 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

## Notes to financial statements

### 21. Operating lease commitments

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

	2010 £'000	2009 £'000
Within one year	480	1,166
Between one and two years	574	783
Between two and three years	887	444
Between three and four years	887	444
Between four and five years	887	444
After five years	3,435	1,668
	<b>7,150</b>	<b>4,949</b>

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.

### 22. Transactions with related parties

#### a) Major shareholders of BSkyB plc

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.

	2010 £'000	2009 £'000
Purchases of goods/services by the Company	68,219	66,782

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

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

#### Proposal by News Corporation relating to possible offer for entire issued share capital of BSkyB

On 15 June 2010 News Corporation announced a proposal relating to a possible offer for the entire issued share capital of BSkyB not already owned by News Corporation ("the Proposal").

BSkyB announced on the same date that the Proposal, which is not a formal offer, is subject to regulatory and financing pre-conditions, which add considerable uncertainty to when and whether any formal offer could be made and that the Independent Directors of BSkyB, who have been so advised by Morgan Stanley and UBS Investment Bank, unanimously considered the terms of the Proposal to undervalue significantly BSkyB.

News Corporation has confirmed that the Proposal does not amount to a firm intention to make an offer under Rule 25 of the Takeover Code and that there can be no certainty that any offer will ultimately be made even if the pre-conditions are satisfied or waived. There is no obligation on News Corporation to make such an offer and therefore it can withdraw the Proposal at its sole discretion at any time.

## Notes to financial statements

### 22. Transactions with related parties (continued)

#### a) Major shareholders of BSkyB plc (continued)

Recognising that an offer from News Corporation could be in the interests of BSkyB's shareholders in the future, and that obtaining any necessary merger clearances would facilitate such an offer, BSkyB has agreed to co-operate with News Corporation in seeking those clearances from the relevant authorities

To that end, BSkyB and News Corporation have entered into an agreement which also covers the following matters

- BSkyB has agreed that it shall not request that the Takeover Panel issue a "Put up or shut up" notice on News Corporation pursuant to Rule 2.4(b) of the City Code on Takeovers and Mergers unless it is in material breach of the agreement
- News Corporation has agreed that until the earlier of two months following receipt of merger clearance, payment of the £38.5 million fee below and 31 December 2011, it shall not acquire or offer to acquire an interest in BSkyB's shares or take action that would require it to make a takeover or similar transaction in respect of the Group's shares without the consent of the Independent Directors. Further, until the earlier of five months following receipt of merger clearance, payment of the £38.5 million fee below and 31 December 2011, any offer must be subject to a minimum acceptance threshold of 70% (including the shares owned by News Corporation)
- If merger clearance is not granted or granted subject to a material remedy, then News Corporation will reimburse BSkyB for costs incurred up to a maximum of £20 million. Further, if News Corporation either receives merger clearance unconditionally or subject to non-material remedies prior to 31 December 2011 and fails to make a firm offer within five months thereafter, or announces prior to obtaining merger clearance that it does not intend to make a firm offer, then News Corporation will pay BSkyB a fee of £38.5 million, representing 0.5% of the value of the Proposal

#### b) Key management

The Company has a related party relationship with the Directors of the Company as key management. At 30 June 2010, there were three (2009: three) key managers, all of whom were Directors of the Company.

The Directors received £nil remuneration in respect of their services to the company (2008: £nil)

#### c) Transactions with other Group companies

The Company conducts business transactions with other Group companies

	2010 £'000	2009 £'000
Supply of services by the Company	502,044	490,065

For details of amounts owed by and owed to other Group companies, see note 13 and note 14

Principal services supplied to other Group companies

- Subscriber management services
- Conditional access services

## Notes to financial statements

### **22. Transactions with related parties (continued)**

#### **c) Transactions with other Group companies (continued)**

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 £904,017,000 (2009 £755,120,000) 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 £68,219,000 (2009 £66,782,000). This principally relates to access fee costs.

The Company is jointly committed with another Group company to making payments to NDS for its provision of smartcards (note 20).

### **23. Ultimate parent undertaking**

The Company is a wholly-owned subsidiary undertaking of British Sky Broadcasting Group plc, a Company incorporated in Great Britain and registered in England and Wales. The Company is ultimately controlled by British Sky Broadcasting Group plc. The only group in which the results of the Company are consolidated is that headed by BSkyB.

The consolidated accounts of the 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.