PARENT ACCOUNTS
SKY HOLDINGS LIMITED
5585009

Sky is Britain and Ireland's leading home entertainment and communications provider

Our business was launched in the belief that people wanted a better choice of TV. Ever since, we have constantly strived to improve that choice and to find new ways to better serve our customers. Today, we are a valued part of life in over 11 million homes

As we have grown, we have developed three core capabilities content, technology and customers The success of our business today, and the strong position we hold for the future, comes from the unique way in which we bring these strengths together in the products and service we offer

We also believe the way we do business is as important as what we do Our 'Believe in better' ethos means doing the right thing and taking responsibility for our actions day to day It also means reaching beyond our business to make a positive contribution to a more sustainable society We call this seeing the bigger picture and it is fundamental to our success

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COMPANIES HOUSE

Forward looking statements

This constitutes the Annual Report of British Sky Broadcasting Group plc (the "Company") in accordance with International Financial Reporting Standards ("IFRS") and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS and is dated 25 July 2013. This Annual Report makes references to various Company websites The information on our websites shall not be deemed to be part of, or incorporated by reference into, this Annual Report.

This document contains certain forward looking statements with respect to our financial condition, results of operations and business and our strategy, plans and objectives These statements include without limitation those that express forecasts expectations and projections such as forecasts expectations and projections with respect to new products and services the potential for growth of free-to-air and pay television, fixed-line telephony, broadband and bandwidth requirements advertising growth, Direct-to-Home ("DTH") customer growth, Over-the-top ("OTT") customer growth, Multiroom, On Demand NOW TV, Sky Go, Sky Go Extra, Sky+ Sky+HD and other services, churn revenue, profitability and margin growth, cash flow generation, programming costs subscriber management and supply chain costs, administration costs and other costs marketing expenditure, capital expenditure programmes and proposals for returning capital to shareholders

Although the Company believes that the expectations reflected in such forward looking statements are reasonable, these statements (and all other forward looking statements contained in this document) are not guarantees of future performance and are subject to risks uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or implied or forecast in the forward looking statements These factors include, but are not limited to, those risks that are highlighted in this document in the section entitled "Directors report - Business review - Principal risks and uncertainties", and information on the significant risks and uncertainties associated with our business is described therein

No part of these results constitutes or shall be taken to constitute, an invitation or inducement to invest in the Company or any other entity and must not be relied upon in any way in connection with any investment decision All forward looking statements in this document are based on information known to us on the date hereof Except as required by law, we undertake no obligation publicly to update or revise any forward looking statements whether as a result of new information future events or otherwise

Chairman's statement

2013 has been a year of significant progress for Sky Building on our consistent track record of growth, the Company continued to deliver a strong performance, both operationally and financially

The fact that Sky has continued to outperform over a period when household budgets have been under sustained pressure is testament to the robustness of our customer-focused strategy and the outstanding way in which management has executed against that strategy While the economic climate remains uncertain, the Board is confident that the Company is well placed with a clear plan to deliver future growth and value creation for shareholders

As Sky has become more successful as a business its impact on our industry and the wider UK economy has grown For example we are the biggest commercial supporter of the UK creative industries, with a commitment to grow our annual spend on UK production to £600 million by 2014 Sky also makes a significant and growing contribution to the wider UK economy contributing over £5 9 billion to GDP and supporting 121 000 jobs

Alongside this, Sky's position as a leading broadcaster in millions of homes allows us to reach beyond our business to inspire people to make a positive difference A good example is Sky Sports Living for Sport, our schools initiative that uses sports stars and skills to boost confidence and improve life skills in young people In its tenth year the initiative reaches one third of all secondary schools in Britain and has just launched in Ireland We are proud of the work that we do in this area and are committed to doing more in the future

Over the past year there have been a number of changes to the Board Jacques Nasser Tom Mockridge and Lord Wilson of Dinton all stepped down in the course of the year On behalf of the entire Board I would like to thank all of them for the considerable contribution they have made to Sky over many years

They have been replaced by Dave Lewis President Personal Care for Unilever, who joined the Board in November Chase Carey President and Chief Operating Officer of 21st Century Fox who joined the Board in January, and Andy Sukawaty the Executive Chairman of Inmarsat who joined us in June I am also delighted that Adine Grate an experienced finance and investment professional, joined the Board on 17 July

After a period of change I am confident that the Board reflects the right blend of skills and experience to guide the Company in the best interests of shareholders

Finally in light of the Company's strong performance the Board proposes an 18% increase in the full-year dividend to 30 0 pence, the ninth consecutive year of growth We also intend to seek shareholder approval for a further £500 million of share repurchases

On behalf of the Board, I would like to thank shareholders for their continued support and all of our 24 000 colleagues at Sky for their commitment and their invaluable contribution to another excellent year for the business

Nick Ferguson, CBE
Chairman
25 July 2013

Chief Executive Officer's statement

Our aim is to build a business that is durable for the long term: one which creates value for shareholders and also acts responsibly in the interests of the wider communities in which we operate. We believe that those businesses that achieve sustainable success have an appetite for change and a commitment to constant renewal in all that they do

At Sky our success is rooted in three core strengths content, technology and customers We have built these capabilities over many years and we believe that the unique way in which we have brought them together has been fundamental to our growth While other companies may be strong in one of these areas or seek to extend into another, Sky uses its understanding of customers to provide great content and innovative technology in a way that competitors are unable to match

For us, everything starts with the customer We have established direct, long-term relationships with over 11 million homes across Britain and Ireland These relationships give us a deep understanding of what our customers want - and don t want - and enable us to stay focused on providing the services that best meet their needs

Because we understand our customers, we know that the main reason they join Sky, and then stay with us, is for great TV Our job is to ensure that we find and produce the very best content to keep offering them a better choice of the television they love

And it is the strength and scale of our customer relationships that enable us to develop innovative technology that is simple and easy to use Our products have transformed the viewing experience for our customers by giving them greater choice and flexibility in the way they access and enjoy our content

In a fast-changing and increasingly complex environment we believe it is the combination of these three strengths that gives us our edge And our continued focus and investment in them provides us with a durable source of value and competitive advantage

What we've delivered

Looking back on the last year, our results show that our approach is delivering for customers and for shareholders In what has remained a challenging consumer environment we sold more products to more customers and grew the amount they spend with us Over the year we added 3 3 million new subscription products taking our total base of paid-for products past the 30-million mark for the first time to 31 6 million This is more than double the level of five years ago

That growth came from across our product set In home communications for example Sky this year became the UK's second largest broadband provider with more than 4 9 million customers This was a result of strong organic growth combined with the acquisition of O2's consumer broadband and fixed-line telephony business

Overall customers now take an average of 2 8 products from us with more than one in three now taking all three of TV, broadband and telephony This helped us to grow ARPU to a record level of £577, an increase of £29 on a year ago

At the same time, we continued to add new customers We closed the year with 11 2 million customers, up 547,000 on last year making Sky the choice of around 40% of households across Britain and Ireland

Building on our strengths

We know that to keep attracting new customers - and to add even more value to our existing customers - we need continually to look for new ways to improve what we offer them

This year we significantly improved our content offering securing long-term agreements on key rights, bringing outstanding new talent to Sky and attracting record audiences across our channel portfolio In sport, we reinforced our leadership with our strongest year yet Europe s victory in the Ryder Cup Andy Murray's first Grand Slam at the US Open and the British and Irish Lions tour of Australia all provided momentous sporting occasions With back-to-back Ashes series live and exclusive Formula 1 racing and the biggest-ever season of Premier League football all to come, next year could be better yet In movies, we renewed our relationship with four of the six major studios in the course of the year strengthening our portfolio and developing our offering to give customers more of the top movies to watch in more ways than ever before

We have continued to bring our customers the best content from around the world whilst increasing the amount that we spend on original production We are on track to reach our target of an annual spend of £600 million on British programming across our channels by the end of 2014 Our strategy to increase investment in this area enabled us to bring more great shows to customers including the multi award-winning *Hunderby* written by Julia Davis, Chris O Dowd s semi-autobiographical *Moone Boy* and the third series of the critically-acclaimed *Mad Dogs* Satisfaction also reached new highs with Sky 1 Sky Living and Sky Atlantic all named amongst customers' top five "must-have" pay TV channels

We strengthened our leadership in customer technology by driving rapid take-up and usage of new connected TV services over the year The growth in the number of connected boxes to reach 25% of customers combined with the launch of the UK s most comprehensive catch up TV service, drove a fivefold increase in the number of average weekly On Demand downloads At the same time, Sky Go our mobile video service had 3 3 million quarterly unique users by the end of the year

In addition, we gave people a new way to access our content with the launch of NOW TV our internet TV service Having started with Sky Movies, we added Sky Sports to the service later in the year offering customers access to all six Sky Sports channels through a new 24-hour day pass This is the first time we have made Sky Sports available outside a monthly subscription and it represents an exciting, new opportunity for us to grow

Over the past year we also continued to offer great quality and value home communications products In January, we launched the Sky Switch Squad, a dedicated team of customer service advisors to make switching to Sky Broadband and Sky Talk easier We also continued to build Britain s leading public WiFi network, now with over 20,000 hotspots and growing In addition, we took a significant step to extend our footprint by launching home communications in Ireland

Exceptional customer service remains integral to what we do In January, we opened a new customer contact centre in Dublin to provide dedicated support for our Irish customers creating 800 new jobs We also created 550 new jobs over the course of the year across our UK retail team and at our Newcastle customer contact centre And in a further step in our drive to improve the effectiveness of our home service operation we are bringing 700 engineers in-house at the end of the summer

The quality of our customer service delivery was again recognised in Ofcom's customer satisfaction survey This ranked Sky first for customer service in TV fixed broadband and landline

Excellent financial performance

Our strong operational performance combined with a continued focus on cost control and efficiency, has translated into excellent financial performance and increased returns to shareholders Total revenue increased by 7% adjusted operating profit was up by 9% to £1,330 million while adjusted basic earnings per share were 60 0 pence an increase of 18% on last year and almost two and a half times the level of five years ago

In light of this, the Board has proposed a dividend of 30 0 pence, which represents an increase of 18% year on year and the ninth consecutive year of growth Our programme to return £500 million to shareholders through a share buy-back also continues In addition we intend to seek shareholder approval at the Company's AGM in November for a further £500 million of share repurchases As with previous programmes 21st Century Fox (formerly known as News Corporation) has agreed to participate in the buy-back, with the effect that there will be no change in its economic or voting interests in the Company as a result of the share buy-back programme

Sky s financial performance demonstrates the way in which our successful transition to more broadly-based growth has created a bigger more profitable business and increased returns to shareholders Having more ways to grow has also served us well at a time when household budgets have been stretched We will continue to focus on growing our overall product sales as the best way to deliver sustainable value to shareholders We see considerable headroom for growth and believe that our unique combination of strengths makes us best-placed to deliver the TV and communications services that customers want

Seeing the bigger picture

At Sky, we recognise that creating a durable business also means looking beyond our immediate commercial priorities to consider the impact that we have on the wider communities in which we operate We call this seeing the bigger picture

Sky makes a significant and growing economic and social contribution to Britain and Ireland We provide choice for customers in entertainment and communications we re the biggest commercial supporter of the UK creative industries and we're a long-term supporter of British sport And the more successful we are the more we contribute to Britain and Ireland as a whole

We believe that being successful commercially goes hand in hand with acting responsibly so we think carefully about how we go about doing business day to day One area where we have made significant progress this year is online safety where we offer tools to help parents protect their children at home and on the move

As a leading broadcaster we also know that we have an opportunity to make a wider impact engaging directly with our customers to inspire them to make a difference Over the last year we reached a number of significant milestones In sport, a third of all secondary schools are now taking part in Sky Sports Living for Sport, our programme that uses the power of sport to improve life skills in young people In addition over a million more people are now cycling regularly as a result of our partnership with British Cycling We hope that Chris Froome's success in the Tour de France in July 2013 will inspire even more people to get on their bikes

In the arts, we have worked with some of the UK's leading arts organisations to bring innovative new art works to the public Our award-winning collaboration with Tate Liverpool was visited by almost 50,000 people this year At our broadcasting facility in West London we also opened Sky Skills Studios, a unique learning experience that takes young people behind the scenes at Sky and gives them the chance to work with the latest technology to make their own news reports on subjects they are studying at school By the end of June over 9 500 young people had already taken part in the Sky Skills Studios experience

We are committed to continuing to do more in all of these areas, which is why we are particularly delighted that David Beckham has joined us as a Sky ambassador to help us get even more people involved in sport

Of course activities like these are the right thing for a business like Sky to do But acting responsibly in the interests of all of our stakeholders also gives people more reasons to feel positively about Sky, which is an important part of how we continue to be successful and grow

As always, we couldn t have achieved any of this without our people They are vital to our success and every one of our 24,000 colleagues plays their part We work hard to attract the very best people to Sky and to create a culture that encourages them to do their best work and fulfil their potential Whether by improving the training that we provide or promoting internal moves to broaden individuals' knowledge of the business ensuring that we continue to develop our people effectively remains a key priority

This year the Sky community was devastated by the tragic loss of Nick Milligan Managing Director of Sky Media and his daughter Emily Nick was a widely respected member of our team and his legacy will endure for many years More importantly he was a great friend and a devoted family man who will be sorely missed by all who had the privilege to know him

In August 2013, we were shocked by the news that Mick Deane a Sky News Cameraman, was shot and killed in Egypt covering the unrest in Cairo Mick had worked for Sky for the last 15 years in a distinguished career spanning four decades He was a brilliant cameramen and journalist and an inspiring mentor to many at Sky His death is an untimely reminder of the bravery and commitment that our colleagues in Sky News and other news organisations demonstrate each and every day*

I would like to thank the whole team for their hard work and enthusiasm over the last year With their continued drive and determination, we can continue to deliver for our customers our communities and our shareholders building a bigger and better business for the years to come

Jeremy Darroch
Chief Executive Officer
25 July 2013

*This paragraph was included after the audited accounts were approved on 25 July 2013

Our business model

Sky is Britain and Ireland's leading home entertainment and communications provider. As at 30 June 2013, we had 11.2 million customers taking a total of 31.6 million products.

Our business

We retail pay TV services to residential customers both in the home and on the move We connect our customers with broadband and telephony products, including DSL, fibre and WiFi We also retail our TV services to commercial customers and operate adjacent businesses distributing our programmes and channels, selling advertising on our own and on partner channels, and offering a range of betting and gaming services

Our strategy

We have a clear and consistent growth strategy to sell more products and services to our customers, to attract new customers to Sky, and to develop our adjacent businesses

Our approach

To achieve our broadly-based growth strategy, we invest in the customer experience while improving the efficiency of our operations Through unwavering focus on quality, flexibility, value and service we can grow in a variety of ways, create value for shareholders, and make a broader contribution to society

Invest in standout content

We invest in high quality differentiated content to give customers a greater choice of the TV they are passionate about.

Add value through innovation

Through continually innovating around our products and services we extend our reach into new markets distribute our content more broadly and improve the experience and add more value for customers

Grow in home communications

We have an infrastructure which allows us to provide customers with great value, high quality and reliable communications services.

Scale other businesses

We deploy our content investments to support growth in our adjacent wholesale advertising, data and betting and gaming businesses

Increase operating efficiency

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

Develop long term capability

We invest in developing our brand our people and our infrastructure as key components of long term success

Our people

The talent, hard work and enthusiasm of our people are critical to Sky s success We want to ensure we attract the best people and create a culture and an environment where they can perform at their best and achieve their full potential

Seeing the bigger picture

Seeing the bigger picture is our approach to building a sustainable business We do this by growing our economic and social contribution taking responsibility for doing the right thing in our day to day business and reaching beyond our business to inspire people to take action to make a positive difference

How we manage risk

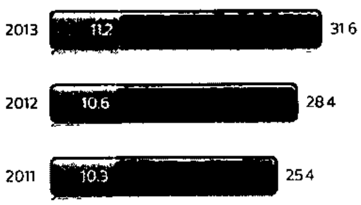
The Group has a formal risk management framework embedded within the business to support the identification and effective management of risk across the Group

Our performance

We have identified a number of key performance indicators that we use to assess the Group's performance against its core strategic priorities.

Operational key performance indicators

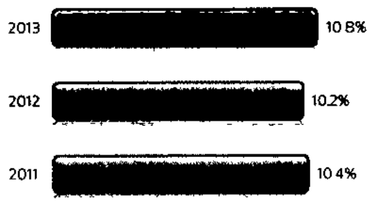
Products & customers
(million)
■ Total customers ■ Total products



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

Analysis
Total customers and products are both key determinants of the Group's value. Our strategy is to continue adding customers and selling more products to our existing base. In 2013 we added 547,000 new customers and grew the total products taken by 11% to 31.6 million

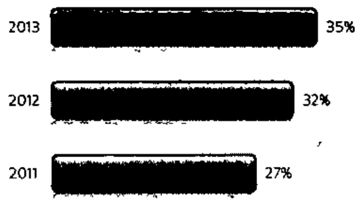
Churn
(%)



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

Analysis
Churn is a good measure of customer satisfaction, which is a key driver of value for our business. Churn for the year 2013 was relatively stable at 10.8%.

Customers taking each of TV broadband and telephony
(%)

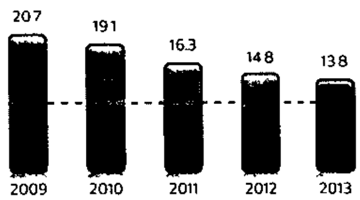


Description
The percentage of customers taking one of our TV products and both a Sky Broadband and a Sky Talk product. Customers may also opt for our line rental product

Analysis
This is an important measure for our business with higher penetration positively impacting ARPU and customer loyalty. At 30 June 2013 3.9 million customers chose each of TV broadband and telephony up 15% from the prior year

> We also have over 25 independently assured key performance indicators that we use to measure our sustainability performance. These can be found at sky.com/biggerpicture

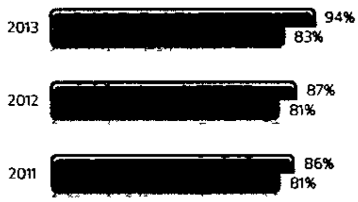
Carbon intensity
(Per £m of revenue)
■ Gross CO_2e emissions (t/£m) - - - Target reduction



Description
Carbon intensity is one of ten new key performance indicators we use to measure our environmental performance (see sky.com/biggerpicture). The total gross CO_2e emissions include emissions from premises and company owned vehicles (Scope 1 and 2).

Analysis
We independently assure our carbon footprint each year and use the results to drive reductions across the business. Our absolute gross CO_2e emissions were stable in 2013 while we grew as a business. Our carbon intensity fell to 13.8, 33% less than our 2008/09 baseline. We are on track to meet our new target set in 2012 to halve our carbon emissions relative to revenue (CO_2e t/£m) by 2020

Employee engagement
■ Sky engagement ■ UK National Norm

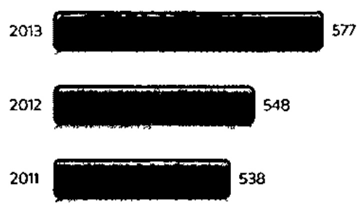


Description
To measure employee engagement we undertake an internal survey of our employees and benchmark their answers externally. As part of a broad array of topics surveyed employees are asked a series of questions designed to quantify engagement.

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

Financial key performance indicators

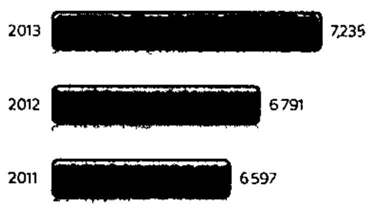
ARPU
(£)



Description
Average revenue per user (ARPU) is calculated by taking the amount spent by the Group's residential customers (ex VAT) divided by the average number of residential customers

Analysis
ARPU is impacted by the type of subscription package taken by a customer as well as the number of products ARPU increased by £29 as customers rewarded us with more of their business

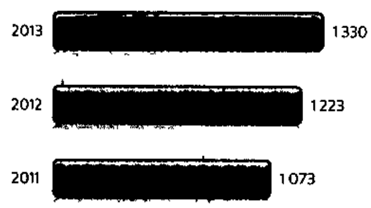
Revenue
(£m)



Description
Revenue includes revenue from retail subscription wholesale subscription revenue advertising and installation, hardware and service revenue

Analysis
Revenue is a key measure of how the Group is delivering on its strategy to grow the business In 2013 revenue grew by 7% with good growth in retail and wholesale operations and a recovery in the more cyclical operations

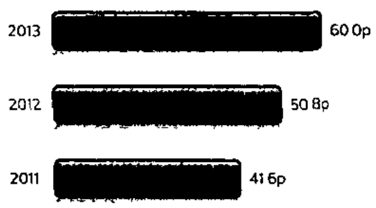
Adjusted operating profit
(£m)[2]



Description
Adjusted operating profit for the Group excludes items that may distort comparability

Analysis
Adjusted operating profit is a key measure of the underlying business performance It increased by 9% in 2013

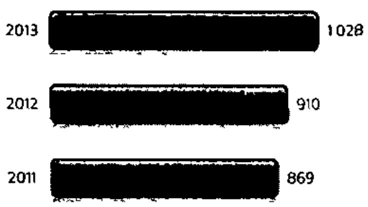
Adjusted basic earnings per share
(p)[1-3]



Description
Adjusted basic EPS is the profit after tax for the year excluding adjusting items and related tax effects, divided by the weighted average number of ordinary shares

Analysis
Adjusted basic EPS provides a measure of shareholder return that is comparable over time Adjusted basic EPS increased by 18% to reach a record level of 60 0p

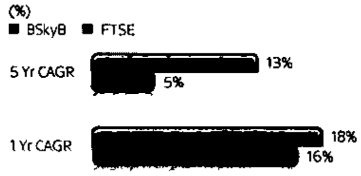
Adjusted free cash flow
(£m)[1,2]



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

Analysis
Free cash flow is an important measure of the Group's success in converting profits to cash flow and of the underlying health of the business Adjusted free cash flow increased by 13% to over £1 billion for the first time

Total shareholder return
(%)



Description
Total shareholder return (TSR) represents the change in value of a share held for a 12-month period to 30 June assuming that dividends are reinvested to purchase additional shares at the closing price applicable on the ex dividend date The value of the share is based on the average share price over the three months prior to 30 June The chart above illustrates the TSR performance for the 12 months to 30 June 2013 and an average annual performance compounded over five years to 30 June 2013.

Analysis
TSR represents a comparable measure of shareholder return over time BSkyB shares outperformed the FTSE 100 index by 2 percentage points in the year to 30 June 2013 and by 8 percentage points over five years

1 For a reconciliation of non-GAAP measures including a reconciliation of ARPU which has been restated for 2011 see pages 114 115
2 From continuing operations
3 For further details see note 8 of the consolidated financial statements

Review of our business

INTRODUCTION

Overview of the business

Sky is the UK's leading entertainment and communications provider We operate the most comprehensive multichannel multi-platform pay television service in the UK and Ireland We have led the UK into the age of HDTV and launched Europe's first 3DTV channel, Sky 3D We give our customers greater access control and choice while at home and on the move with our Sky+ On Demand and Sky Go services NOW TV Sky's second consumer brand, gives customers another flexible way to access Sky's content Sky is the UK's fastest growing home communications company and this year we achieved another product milestone with the launch of a communications service to complete our triple play offering in Ireland

At 30 June 2013, we had over 11 2 million customers in the UK and Ireland taking a total of 31 6 million products We are the UK's largest triple play provider with 35% of our customers choosing to take each of TV, broadband and telephony

Our consistent approach is delivering strong financial results For the year ended 30 June 2013 revenue growth of 7% combined with our continued focus on operating efficiency delivered adjusted operating profit growth of 9% to reach a record £1 330 million and we surpassed £1 billion of free cash flow for the first time We continued our strong track record for shareholder returns with 18% growth in the full year dividend of 30 0p our ninth consecutive year of growth In addition we have returned £624 million to shareholders throughout the year via our share buy-back programme

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

> **Our customers** – our products and services
> **Our content** – our channel offering
> **Our adjacent businesses** – Sky Media, Wholesale Distribution Sky Betting and Gaming and Sky Vision
> **Infrastructure and technology** – satellites, playout and uplink facilities digital satellite reception equipment encryption and security and communications infrastructure

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

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

OUR CUSTOMERS

Overview of our retail business

We retail subscription TV and communications services to residential and commercial premises in the UK and Ireland Our customers enjoy an unrivalled choice of high quality content We own and broadcast the Sky Channels which we retail together with the Sky Distributed Channels to our TV customers and since July 2012 we have offered simple and commitment free access to an internet TV service in the UK NOW TV We keep our customers connected with great value broadband and telephony products in the home via DSL and fibre and away from the home with Sky WiFi

Products and Services

Television

> *The Sky Channels and Sky Distributed Channels* For our TV Customers, we group the Sky Distributed Channels (other than the Premium Sky Distributed Channels) and the Sky Basic Channels into three packs, Entertainment, Entertainment Extra and Entertainment Extra+ The Entertainment pack is available for £21 50 per month and includes popular entertainment channels such as Sky 1, Sky Atlantic, Sky Living, Comedy Central, Watch Gold, Alibi and Fox Entertainment Extra is available for £27 per month and includes all the channels from our Entertainment pack plus additional channels including Discovery, Disney and National Geographic Entertainment Extra+ is available for £32 per month and includes all the channels from our Entertainment Extra pack plus 48 of these channels in HD and access to TV box-sets with On Demand Customers also have the option to add a combination of Premium Sports and Movies Channels to their package In total, the Sky TV service currently offers access to 165 pay television channels (134 Sky Distributed Channels and 31 Sky Channels) and in addition all customers can receive more than 300 free-to-air television and radio channels and services Our agreements with the owners of the Sky Distributed Channels typically grant us the exclusive right to offer these channels to residential DTH customers in the UK and Ireland

> *Sky+* TV Customers can use Sky+ to record two programmes simultaneously whilst they are watching another programme recorded earlier TV Customers can also use Sky+ to pause and rewind live TV and record entire series at the touch of a button with the 'Series Link' feature Since October 2012 if a recording is accidentally deleted it can now be undeleted The Sky+ app on mobiles and tablets allows TV customers to view the TV Guide and On Demand catalogue, view recommendations, record programmes and set up a Series Link whilst on the move When in the home TV Customers can use the Sky+ app to browse their planner and use it as a remote control for their Sky+HD box

> *Sky HD* We operate an HD service which consists of over 60 HD channels offering a range of content across all key genres This year we have introduced greater flexibility as to the means by which customers can access our HD service 48 basic HD channels including Sky 1 HD, Sky Living HD, Sky Atlantic HD Sky Arts 1 and 2 HD and Sky News HD and eight free-to-air channels are now available within our new TV pack, Entertainment Extra+ Customers then have the option to add an HD Pack on top of this for Premium HD channels in line with their TV package including five Sky Sports channels and 11 Sky Movies channels

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

> *On Demand* Sky's On Demand service offers a wide selection of content from across the Sky platform including content from the Sky Channels the Sky Distributed Channels and free-to-air broadcasters (including BBC iPlayer) for customers to watch whenever they want Our full On Demand service includes IP delivered video on demand and is available to homes that have an active broadband connection Once their box is connected to their broadband connection, relevant TV Customers have a regularly updated library of on demand TV including the UK s biggest catch up TV service with the widest range of catch up channels, as well as access to over 800 movies and TV box sets (including iconic series from HBO)

> *Sky Go* The service is available at no extra cost to DTH customers allowing them to watch up to 49 live channels and on demand content including all six Sky Sports channels Sky Movies, Sky 1, Sky Living, Sky Arts and Sky Atlantic Customers can also watch programmes from a range of Sky Distributed Channels and On Demand content live and on demand including children s content from Disney Nickelodeon and Turner and entertainment content from Fox Syfy Universal and Star Plus Content from Channel 4 and 4oD is also available for customers to watch Sky Go is available on laptops, mobiles, tablets and Xbox 360 Each Sky home is entitled to register for the service on up to two compatible devices

> *Sky Go Extra* In January 2013, we launched our new subscription service, Sky Go Extra The service, which costs £5 a month, allows DTH customers to download selected content included with their TV package to watch when and where they want, without the need for a WiFi or 3G/4G connection Customers can also register for Sky Go on four rather than two internet-connected devices From July Sky Go Extra is available to Sky Multiroom customers at no extra cost

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

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

> *NOW TV* Our internet TV service giving customers in the UK an easy and commitment-free way to access some of the best Sky content is available across a wide range of internet-connected devices Movie fans can get a Sky Movies Pass for £15 a month, offering completely unlimited access to hundreds of films Sports fans can get a Sports Day Pass for £9 99 for 24 hours of unlimited access to all six Sky Sports channels

Home communications

> *Sky Broadband* At 30 June 2013 Sky had over 4 9 million broadband customers Since our launch in 2006 we have consistently been the fastest growing provider of broadband and home telephony services and our recent acquisition of O2 s consumer broadband and fixed-line telephony business has helped to cement our position as the second largest operator in the UK As well as significant savings customers are switching to Sky for improved customer service a better product experience and more flexibility Having a state of the art, all fibre core network means we can give our customers a highly reliable service without reducing speeds at peak-times or imposing fair use policies on uncapped products Our network covers almost 88% of UK households and allows us to offer customers a choice of high quality and great value broadband services Sky Broadband Connect is a white labelled service offered to customers in the UK who are not within the coverage area of our network It allows us to provide customers with a Sky-branded broadband service and give them access to Sky's leading customer service infrastructure even though our network does not extend to their home For UK homes within our network reach we offer two, copper-based (DSL) broadband products For each of our DSL products we give customers the maximum speed possible on the line Sky Broadband Lite is free for customers who also take line rental and it has a 2GB monthly usage allowance Sky Broadband Unlimited retails at £7 50 per month (when taken with a TV service) and has no monthly usage allowance or fair usage policy The majority of our broadband customers choose the unlimited product We also offer two differentiated fibre broadband products to customers in the UK Sky Fibre Unlimited gives customers download speeds of up to 38 Mbps and Sky Fibre Unlimited Pro offers speeds of up to 76 Mbps Neither product has usage caps imposed The fibre products are wholesaled from BT Openreach and are therefore available to Sky customers who reside within the coverage area of BT's fibre network Sky broadband customers in the UK (except Sky Broadband Lite customers) can also enjoy unlimited Sky WiFi in over 20 000 hotspots across the UK, all included as part of their monthly broadband subscription This gives customers the opportunity to enjoy unlimited free wireless access across the high street and other locations where people want to get online Consumers do not need to be Sky TV customers to enjoy Sky's great value broadband each of our products (except Sky Broadband Lite) is also available on a standalone basis
In February 2013, we launched Sky Broadband in Ireland We white-label BT Ireland s products to offer Irish customers two copper-based (DSL) products Sky Broadband Lite and Sky Broadband Unlimited Both products offer customers download speeds of up to 24 Mbps (depending on the customer's location)

> *Sky Talk* Sky Talk is a telephony service (including landline) available to homes in the UK and Ireland and has over 4 5 million customers Sky Talk is available to customers who do not take a television service
In the UK Sky Talk Weekends (with Sky Line Rental) offers customers inclusive weekend calls of up to one hour to UK landlines and Sky Talk Unlimited (with Sky Line Rental) offers customers unlimited calls (for up to one hour per call) to UK landlines and 22 international destinations In Ireland, Sky Talk Freetime offers customers inclusive evening and weekend calls of up to one hour to landlines in Ireland and Sky Talk Anytime offers customers inclusive calls of up to one hour to landlines in Ireland and 20 international destinations

> *Sky WiFi* We have continued to grow our WiFi footprint across the UK and now have over 20,000 high bandwidth, public access hotspots The quality of our hotspots in popular locations where people dwell provides valued seamless internet access free of charge to Sky Broadband Unlimited Sky Connect, Sky Fibre Unlimited and Sky Fibre Unlimited Pro customers The service provides flexibility and convenience and proves particularly valuable for customers who access Sky content on the go

Sky Business

We offer a number of our services including our HD service to commercial TV customers in the UK and Ireland under a range of contracts The types of contract and the channels which are available to any particular commercial customer depend primarily upon the type of business premises within which such customers wish to show our services Our commercial TV customers include offices retail outlets, hotels pubs and clubs We also offer WiFi services to commercial customers

ECJ judgment On 4 October 2011, the European Court of Justice ("ECJ") handed down its judgment in actions brought by the Premier League ("PL") amongst others against pubs using (and suppliers supplying) foreign decoder cards and boxes to view live PL football The ECJ determined that restrictions in an agreement between the PL and its Greek licensee which obliged that licensee not to supply decoding devices to persons outside the licensed territory, are contrary to EU laws The ECJ found that, although the PL did not have

Review of our business

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copyright in the live coverage of its football matches, the PL title sequences logo, anthem and graphical elements did attract protection under the Copyright Directive The High Court consistently applied the ECJ s judgment to the cases before it and the defendants in the civil litigation (the foreign card suppliers) were found to have infringed the PLs copyright The High Court also held that certain provisions in the PLs agreements with foreign distributors prohibiting the distribution of decoder cards outside of the authorised territory were void under competition law

The PL appealed (to the Court of Appeal) a limited aspect of the High Court decision which had found that the defendants had a defence to the allegation of infringement of the PLs film copyright In December 2012, the Court of Appeal found that the defendants did have a defence in relation to the film copyright but only because the UK has failed to implement properly the Copyright Directive It is likely that the government will need to change UK law in order to bring it in line with the Directive although there is no indication as to the timing of any such change

OUR CONTENT

Overview of our content

The main reason why our customers come to Sky is the choice of high quality content that we provide It is key that the content we offer differentiates Sky from what is available on the free-to-air channels

Our News Movies and Sports channels are best in breed and considerable investment is now being made in our Entertainment portfolio to provide distinct channel destinations We are increasing our investment in original British content to £600 million per year by the end of 2014 We have had considerable success with comedy – with over 20 original series delivered in the last year – and will start to deliver a range of new British drama series in the year ahead We are also working with our partner channels such as History National Geographic and Comedy Central to increase their commitment to delivering original British content

Our channel portfolio

Our entertainment channels

> *Sky 1* Sky 1 is our flagship entertainment channel providing content that appeals to the whole household The majority of its content investment is in UK commissions with a focus on comedy and drama Sky 1 was once again nominated for Channel of the Year (having won it for the first time in 20 years last year) Its aim is to have 12 high profile shows every year that customers value – this year they included *Stella, Got To Dance, Mad Dogs, Modern Family Strikeback An Idiot Abroad The Simpsons* and *Trollied* Sky 1 has focused on increasing the number of long running British drama series and a new addition for the year ahead will be *The Smoke* a ten part drama series from the makers of *Spooks*

> *Sky Living* Sky Living remains a destination of choice for our female customers and their partners We have had considerable success with new and returning US dramas – such as *Elementary Hannibal, Bones,* and *Grey s Anatomy* We have also started to introduce British comedy to the channel with the highly acclaimed *Love Matters* and continue to deliver well loved formats such as *Britain and Ireland s Next Top Model* High profile series coming to the channel this year include *Dracula* (a co-production with NBC) *Doll and Em* (a semi-improvised comedy set in LA) and *The Face* hosted by Naomi Campbell

> *Sky Atlantic* Sky Atlantic is the channel of choice for cinematic UK and US drama The channel is the home of HBO content in the UK as part of an exclusive output deal Key series performers this year have been *Game of Thrones The Following The Borgias Boardwalk Empire* and *Girls* It won four Baftas this year and was nominated for Channel of the Year New British dramas coming to the channel in the forthcoming year include *Fleming* and *The Tunnel*

> *Sky Arts* Sky Arts 1 is for audiences who love the Arts and love creative risk This year it has had its biggest audience ever with *A Young Doctors Notebook*, an original UK commission, starring John Hamm and Daniel Radcliffe It has had remarkable success with *Playhouse Presents* – a run of one off plays starring actors such as Brenda Blenthyn Alison Steadman Vanessa Redgrave and Kylie Minogue Sky Arts 2 continues to broadcast a range of the best in classical arts programming from around the world including opera literature, theatre, film and dance Upcoming highlights will include the first ever portrait competition with the National Portrait Gallery and *Talks Music* a unique interview series giving an exclusive insight into the careers of some of the world's most iconic music legends

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

Our partner channels

> To complement our own entertainment channels Sky s pay TV offering also includes a range of high quality channels from other broadcasters This includes well known channels from major international broadcasters such as Disney Discovery Viacom, Fox and NBC Universal, amongst others Partner channels such as Comedy Central Gold Watch, SyFy, Fox and MTV add breadth to Sky's entertainment offering with some very popular UK commissioned shows such as *Dynamo Magician Impossible* which delivered record audiences during the year Our childrens offering includes channels from the trusted Disney and Nickelodeon brands, and our factual offering includes some outstanding content from the likes of Discovery National Geographic and History Channel The majority of our partner channels are now made available to our customers in HD, with great content available On Demand

Sky Movies

> *Sky Movies Overview* Sky Movies has an unbeatable range of films including most of the latest Hollywood blockbusters new British films and a deep library of all-time greats Through our exclusive agreements with the major studios and some of the leading independents Sky Movies offers customers over 800 movies on demand and across 11 dedicated channels, including new premieres every week Sky Movies customers can enjoy these new films within 9 months from their initial release in cinemas and at least 12 months before any online movies subscription service
In the last year we created the pop up channel Sky Movies 007, which is the home to the complete Bond film franchise – a world first We also launched Sky Movies Disney, a ground breaking partnership bringing Sky Movies customers exclusive Disney movies Together with Disney Movies on Demand we have the most comprehensive Disney movies offering in the UK
In addition to enjoying movies whenever they want with On Demand, Sky Movies customers can also watch movies wherever they are with Sky Go The Sky Movies channels are also available via NOW TV All of the Sky Movies channels are available in HD We don t

show any advertisements during our films and we PIN-protect pre-watershed

> *Competition Commission Investigation* In August 2010, Ofcom referred the supply and acquisition of pay TV movie rights and the wholesale supply and acquisition of pay TV packages including Sky's movie channels to the Competition Commission ("CC") for investigation The CC published its final report on 2 August 2012, concluding that the Group's position in the acquisition and distribution of movies in the first pay window did not adversely affect competition in the pay TV retail market and that accordingly remedies were not required

Sky Sports

> *Sky Sports Overview* The Sky Sports Channels are Sky Sports 1, Sky Sports 2, Sky Sports 3 Sky Sports 4 Sky Sports News and Sky Sports F1 together with their HD simulcasts The channels are also all available online on Sky Go and via NOW TV Some content from these channels is also available On Demand In the 2012 calendar year, we broadcast 49,000 hours of sport across our six channel network

> *Sky Sports programming* Our programming rights for the Sky Sports Channels include exclusive live rights to broadcast in the UK (and in most cases Ireland) a range of sport including a number of football (including Premier League, UEFA Champions League, Football League and La Liga) motorsport rugby union, rugby league, cricket, golf and tennis events In 2013 Sky Sports set a number of new record audiences for individual sports These include records for the dramatic climax to the 2012 Ryder Cup Andy Murray's win at the US Open, and the recent Lions series Audiences watching on devices other than televisions also increased with Sky Go viewing regularly adding 10% to in-home audience figures The year ahead is set to be another exciting year for Sky Sports For the first time we will have back to back Ashes series, with the summer series being played out on the temporarily re-branded Sky Sports Ashes channel Coverage under the new PL contract commences on 17 August 2013 and this season we will broadcast 116 live PL games, more than ever before The start of the 2013/14 PL season will also see the launch of our new Game Changers programme which will aim to inspire greater sports participation amongst children Both David Beckham and Jessica Ennis-Hill will be providing master-classes as features within the show We also give valuable exposure to a wide range of other sports which appeal to a smaller but equally committed audience

> In March 2006, the European Commission rendered legally binding the PL's commitment to sell live TV rights in six balanced packages for the three seasons from 2010/11, with no one bidder being allowed to buy all six packages In February 2009, the Group successfully bid for five of those six available packages (each of 23 games) of live rights to PL football in both the UK and Ireland for three seasons to the end of the recently completed 2012/13 season In June 2012, following a restructure of the tender process, seven packages of live Premier League rights to 154 matches for seasons 2013/14 to 2015/16 were offered by the PL (eight packages covering 184 matches in Ireland) No one bidder was allowed to win more than 116 matches We successfully secured five of the seven PL packages (116 live matches per year from the 2013/14 season) for the UK and Ireland

> *Wholesale must-offer obligations* On 31 March 2010 Ofcom published its decision to impose wholesale must-offer obligations on Sky (the "WMO Obligations") for the channels Sky Sports 1 Sky Sports 2, Sky Sports 1 HD and Sky Sports 2 HD (the "Affected Channels") The WMO Obligations require Sky amongst other things to offer the Affected Channels on a wholesale basis to third parties which satisfy various minimum qualifying criteria (including financial, technical and security criteria) The WMO Obligations specify maximum prices that Sky may charge for Sky Sports 1 and/or Sky Sports 2 Under the WMO Obligations the wholesale price is linked to Sky's retail price The WMO Obligations do not specify a maximum price for Sky Sports 1 HD and/or Sky Sports 2 HD Rather they require Sky to offer these channels on a fair, reasonable and non-discriminatory basis In April 2010, Sky applied to the Competition Appeal Tribunal ("CAT") for a suspension of the implementation of the WMO Obligations On 29 April 2010 Sky's application was resolved by way of an agreed Order from the President of the CAT The terms of the Order resulted in the suspension of certain aspects of Ofcom's decision pending the outcome of Sky's substantive appeal In summary, the effect of the Order is as follows

> > Sky is required to offer the Affected Channels to each of BT, Top Up TV and Virgin Media ("VM") for distribution via DTT and to VM for distribution via cable Other parties may apply to the CAT to be added to the list of persons to whom Sky is required subject to the satisfaction of minimum qualifying criteria to offer its channels (on 23 November 2010, REAL Digital EPG Services Limited was added to the list in respect of DTH satellite distribution but has not commenced distribution of any Sky Sports channels)

> > In the event that BT Top Up TV or VM enter into a distribution agreement for Sky Sports 1 and/or Sky Sports 2, the distributor is required to pay Sky the equivalent of the maximum price Sky may charge for the channel(s) under the WMO Obligations The , difference between that price and the rate card price set by Sky will be paid into escrow

On 8 August 2012 the CAT handed down its judgment on Sky's appeal against Ofcom's decision to impose the WMO Obligations (the "Pay TV Judgment") publishing its full judgment on 26 October 2012 The CAT found that "Ofcoms core competition concern is unfounded" (Ofcom had found that Sky deliberately withheld wholesale supply of the Affected Channels) and that accordingly Sky's appeal must be allowed

On 26 April 2013, BT was granted permission to appeal the Pay TV Judgment to the Court of Appeal The Court of Appeal has stayed the withdrawal of Ofcoms original decision (and therefore the withdrawal of the WMO Obligations and distribution of the monies held in escrow) pending determination of BT's appeal

Sky is currently unable to determine whether, and to what extent, BT's appeal would be successful, and it is not possible for Sky to conclude on the financial impact of any outcome at this stage, however, should the outcome of the appeal process be adverse to Sky this may have a significant effect on the financial position or profitability of Sky

> Ofcom Competition Act Investigation Following receipt of a complaint from BT on 14 June 2013 Ofcom opened an investigation into whether Sky has abused a dominant position contrary to Chapter II of the Competition Act 1998 and/or Article 102 of the Treaty on the Functioning of the EU BT's complaint alleges that the terms on which Sky offered wholesale supply of Sky Sports 1 and 2 to BT for its service on the YouView platform amount to an abuse of dominance The complaint alleges that Sky is making wholesale supply of Sky Sports 1 and 2 to BT for its YouView service conditional on BT wholesaling BT Sports Channels to Sky for retail on Sky's

Review of our business

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satellite platform BT is seeking interim measures from Ofcom Ofcom has indicated that it expects to issue a decision on the interim measures application in July Sky is currently unable to determine the outcome of Ofcom s investigation or of BT's application for interim measures

Sky News

Sky News provides national and international news to viewers in the UK Ireland and across the globe The channel is broadcast unencrypted on Astra satellites (see "Satellites' on page 15) and distributed to viewers via cable and satellite networks in Europe Africa, the Middle East and Asia It is also currently shown on most cable networks in the UK and Ireland on DTT in the UK as part of the Freeview offering and on the Freesat offering in the UK An HD version of Sky News is available only in Sky households Sky News is also available to viewers on the Sky News website Sky News mobile applications the Sky News for iPad application and on Sky Go In June Sky News was the first 24-hour news channel to launch an application on Apple TV and is already attracting a good audience particularly in the US Overall, Sky News reaches 107 million homes in 118 countries most recently adding Japan to the list

Our television coverage of significant events such as the U S Election the Boston Marathon Bomb and Margaret Thatcher s funeral has delivered strong audiences

Our joint venture Sky News Arabia, also continues to grow audience and we continue to collaborate more closely on relevant stories, for example, the recent coup in Egypt

Sky News Digital has seen significant growth over the past 12 months with unique users across all platforms averaging six million each month There have now been more than eight million downloads of mobile Sky News apps

OUR ADJACENT BUSINESSES

Overview of our adjacent businesses

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

Sky Media

In 2013 we derived revenue of £440 million from advertising sales and sponsorship (2012 £440 million) Sky Media sells advertising and sponsorship across all of the Sky Channels and also acts as the advertising and sponsorship sales representative for 17 channel partners representing 69 channels We also sell online advertising across Sky's network of websites, mobile advertising, green-button advertising, advertising across Sky's video on demand service and product placement opportunities Sky is in the process of developing Adsmart, its capability to deliver targeted advertising to its customer base and intends to launch later in 2013

Wholesale Distribution

Overview of wholesale distribution

In fiscal 2013, we derived £396 million in revenues from the wholesale distribution of our channel portfolio (2012 £351 million) Wholesale operators (see "Wholesale Operators" section below) acquire the right from us to distribute certain of the Sky Channels which they combine with other channels from third parties and distribute to their subscribers

Wholesale Operators

In the UK we have arrangements in place with VM and Talk Talk for the retransmission of certain of the Sky Channels and associated on demand services on their cable and IPTV systems respectively as well as an agreement with British Telecommunications for the distribution of Sky Sports 1 and Sky Sports 2 via BT Vision Cardinal set-top boxes only As of 30 June 2013 we no longer distribute Sky Sports 1 and Sky Sports 2 to Top Up TV Limited or otherwise via DTT in the UK In Ireland, we have arrangements in place with UPC Communications Ireland Limited for the re-transmission of certain of the Sky Channels to their subscribers via its cable and MMDS systems We also have contracts with a number of smaller regional cable operators in both the UK and Ireland

Free-to-air distribution

We currently broadcast versions of three of our channels Sky News Challenge and Pick TV, unencrypted free-to-air via DTT in the UK and since 3 December 2012 also on Freesat

Betting and Gaming

We offer a range of betting and gaming services under the "Sky Bet" Sky Poker , "Sky Vegas and "Sky Bingo brands in relation to which Sky acts as bookmaker and operator These products are licensed by the Alderney Gambling Control Commission and are made available across multiple platforms including by means of Sky set-top boxes by telephone, on the internet and on mobile devices The gambling business is certified by the gambling charity GamCare and has in place stringent social responsibility measures for the protection of minors and other vulnerable people We also take active measures to prevent persons resident in the US and other restricted jurisdictions from participating in our internet gaming and betting services

Sky Vision

In July 2012, we acquired the Parthenon Media Group, a leading independent international distribution and multi-media rights management company Now rebranded as Sky Vision it has established a new distribution arm to market the international rights to our originated content as well as content from third parties The distribution capability generates revenues from Sky's content investment from the sale of overseas rights, which in turn enables us to reinvest in the UK's creative economy for the benefit of both customers and content makers

INFRASTRUCTURE AND TECHNOLOGY

Overview of our infrastructure and technology

Sky utilises a powerful hybrid network to deliver a high quality integrated entertainment experience for our customers Satellite remains the most efficient means to broadcast HD live TV into the home and the local storage of the HD set-top box gives customers the added capability of time-shifted viewing Our HD box is Ethernet enabled and connects via broadband to give customers access to our On Demand service We have also developed a range of software applications that enable access to our content across multiple devices and away from the home Developing and maintaining our technological capabilities is critical to our commitment to and passion for, continued innovation

Satellites

The digital transmissions of our channels for reception both by DTH customers and cable operators take place using capacity on a number of satellite transponders on the SES Astra 2A 2F and 1N satellites and until 3 October 2013 on the Eutelsat 28A satellite We contract with SES Astra for the majority of this capacity (currently 32 transponders) and, until 3 October 2013, with Arqiva for the remaining capacity (four transponders on the Eutelsat 28A satellite) In June 2009, we signed a long term transponder arrangement with SES Astra which covers the renewal of the arrangements on 24 of our transponders Those transponder agreements have expiry dates between 2019 and 2025 and thus provide long term security for the platform As part of this arrangement we also entered into an inter-satellite back-up transponder agreement which provides protection for 31 of our SES Astra supplied transponders in the event of transponder or satellite failures We have been designated a "non pre-emptible customer" under each of our transponder agreements This means that, in the event of satellite or transponder malfunction, our use of these transponders cannot be suspended or terminated by SES Astra or Eutelsat in favour of another broadcaster with pre-emption rights in preference to us We have also put in place disaster recovery plans in the event that we experience any significant disruption of our transponder capacity

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

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

Playout and uplink facilities

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

Digital satellite reception equipment

In order to receive our DTH service customers are required to have a digital satellite system, which includes a satellite dish and LNB (low noise block converter), a digital satellite receiver ("set-top box") a smartcard and a remote control

We source all of our set-top boxes from our own manufacturing division Home Service and Supply Our Product Design and Development division work with Home Service and Supply to design specify, develop and sell HD set-top boxes (both PVRs and standard set-top boxes) although the actual manufacture of these set-top boxes is outsourced to factories in Romania and China, and in conjunction with such activities support the development of additional new features and functionality for those set-top boxes

Encryption and security

We use VideoGuard conditional access technology to encrypt and decrypt digital television and audio services and to control access to certain channels on our DTH platform We use the VideoGuard technology and distribute smartcards in the UK and Ireland under an agreement with NDS NDS supplies smartcards and undertakes ongoing security development and other support services in return for the payment of fees by us In conjunction with NDS, we maintain a policy of refining and updating the VideoGuard technology in order to restrict unauthorised DTH reception of our services We take appropriate measures to counter the threats of unauthorised reception, including the implementation of over-the-air counter measures altering authorised smartcards in a manner which then renders counterfeit smartcards obsolete and seeking legal remedies, both civil and criminal reasonably available to us We constantly monitor and review other methods of piracy of our services that may be developed and where appropriate we deploy countermeasures to thwart such activities

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

DTT Transmission

Arqiva provides DTT capacity on Multiplex C for Sky's three DTT channels under a technical services agreement which expires in November 2014

Communications Infrastructure

Our UK broadband network comprises a fixed access network a public WiFi access network and a long distance core fibre network To provide broadband and talk services in the UK, we rent access to the copper line to the customer home from BT on regulated terms and prices (as well as wholesale managed products from BT in some instances) Those lines are connected to our own electronic equipment in the local telephone exchange Our electronic equipment is currently sited in 2,323 telephone exchanges covering approximately 88% of the UK s population To provide fibre broadband, we purchased a further wholesale product from BT based on fibre to the cabinet technology, which BT is again obliged by regulation to supply Our core fibre network is one of the most extensive all-IP, fibre optic networks in the UK It comprises 7,500 kilometres of high capacity fibre optic circuits stretching from Cornwall to Scotland We do not operate our own network in Ireland but instead supply Sky Talk and Sky Broadband in Ireland using the network of our wholesale partner BT Ireland

SIGNIFICANT AGREEMENTS

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

Review of our business

continued

Premier League

In 2012 British Sky Broadcasting Limited (a Group subsidiary) entered into an agreement (the 'PL Licence') with The Football Association Premier League Limited (the 'PL'), pursuant to which the Group was awarded five of seven available packages of live audio-visual rights for Premier League football (the seven packages are together the Live Packages") together consisting of 116 live matches per season The PL will not award Live Packages containing in the aggregate more than 116 live matches per season to a single licensee (either on its own or as part of a consortium or through one or more of its related parties) (the "Single Buyer Rule') Pursuant to the PL Licence, the PL can suspend and/or terminate all of the rights which are included in or exercisable as part of, Live Packages containing in the aggregate up to 38 live matches per season in the event that a change of control of the Company occurs at any time prior to the expiry of the PL Licence which if it had occurred prior to the award of the Live Packages to the Group would have resulted in a breach of the Single Buyer Rule

Revolving Credit Facility

The Group has a £743 million syndicated revolving credit facility ("RCF') with a maturity date of 31 October 2017 There is one further opportunity to request an extension of one additional year to the RCF at the lenders' discretion with a potential final maturity of October 2018 The lenders can require any amounts outstanding under the RCF to be repaid in the event of a change of control of the Company (other than in the event that Twenty-First Century Fox Inc or any subsidiary or holding company thereof (or a subsidiary of such holding company) acquires such control)

Twenty-First Century Fox voting agreement

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

EMTN bond issue

On 3 April 2007 the Group established a euro medium term note programme (the 'EMTN Programme') which provides the Group with a standardised documentation platform to allow for senior debt issuance in the Eurobond markets The maximum potential issuance under the EMTN Programme is £1 billion On 14 May 2007, under the EMTN Programme the Company issued Eurobonds consisting of £300 million guaranteed notes paying 6 000% interest and maturing on 14 May 2027 (the Notes') Pursuant to the final terms attaching to the Notes, the Company will be required to make an offer to redeem or purchase its Notes at its principal amount plus interest up to the date of redemption or repurchase if there is a change of control of the Company (i) which, if the Notes carry an investment grade credit rating, results in a downgrade to a non-investment grade rating or a withdrawal of that rating or (ii) where if the Notes carry a non-investment grade rating, results in a downgrade by one or more notches or a withdrawal of that non-investment grade rating or (iii) where, if the Notes do not carry a credit rating, the Company does not seek such a rating or is unable to achieve such a rating, provided that in each case the decision to downgrade, withdraw or not to award a credit rating occurs within a certain period of time after the change of control and the relevant rating agency cites that such decision(s) resulted from the change of control

February 2008, November 2008 and November 2012 bond issues

In February 2008 the Group entered into an indenture in respect of US$750 million 6 100% senior unsecured notes due 2018 In November 2008 the Group entered into an indenture in respect of US$600 million 9 500% senior unsecured notes due 2018 In November 2012 the Group updated the November 2008 indenture in respect of a further issuance of US$800 million 3 125% senior unsecured notes due November 2022 Pursuant to the final terms attaching to the securities the Company will be required to make an offer to redeem or purchase its securities at a price equal to 101% of their principal amount plus accrued and unpaid interest up to the date of redemption or repurchase, if there is a change of control of the Company (i) which if the securities carry an investment grade credit rating, results in a downgrade to a non-investment grade rating or a withdrawal of that rating, or (ii) which if the securities carry a non-investment grade rating, results in a downgrade by one or more notches or a withdrawal of that non-investment grade rating, or (iii) where if the securities do not carry a credit rating, the Company does not seek such a rating or is unable to achieve such a rating, provided that in each case the decision to downgrade withdraw or not to award a credit rating occurs within a certain period of time after the change of control and the relevant rating agency cites that such decision(s) resulted from the change of control

UK broadcasting licences

The Group is party to a number of Ofcom broadcasting licences for the broadcast of the Sky Channels The Broadcasting Act 1990 (as amended by the Broadcasting Act 1996 and the Communications Act) lays down a number of restrictions on those parties permitted to hold Ofcom broadcasting licences Among those restricted from holding Ofcom broadcasting licences or from controlling a licensed company are (a) local authorities (b) political bodies, (c) religious bodies, (d) any company controlled by any of the previous categories or by their officers or associates (e) advertising agencies or any company controlled by such an agency or in which it holds more than a 5% interest Licensees have an ongoing obligation to comply with these ownership restrictions Failure by a licensee to do so (either by the licensee becoming a 'disqualified person or any change affecting the nature characteristics or control of the licensee which would have precluded the original grant of the licence) may constitute a breach of the licence and if not rectified, could result in revocation of the licence

Ofcom also has a duty under the Broadcasting Acts to be satisfied that any person holding a broadcasting licence is fit and proper to hold those licences and may revoke those licences if it ceases to be so satisfied

On 20 September 2012, Ofcom published its decision finding the Group to be a fit and proper holder of its broadcasting licences In its decision, Ofcom found no evidence that Sky was involved in any wrongdoing either admitted or alleged to have taken place at the News of the World or the Sun (together the "News Group Newspapers") However Ofcom also considered whether the characters and conduct of James Murdoch, Rupert Murdoch and News Corporation to the extent implicated in, or tainted by alleged or admitted wrongdoing at News Group Newspapers were relevant to the Group s fitness and propriety to hold broadcasting licences Ofcom found that, in the circumstances including the compliance record of the Sky channels from 2006 to 2012, the Group's success during James Murdoch's tenure as CEO and Chairman and the current governance structure, the Group remained fit and proper to hold broadcast licences In its decision, Ofcom also noted the continuing nature of its duty to be satisfied that a licensee is fit and proper and that it would consider further evidence if it became available in future

Under the rules on privacy in the Broadcasting Code, Ofcom has considered two instances of a Sky News journalist accessing the email of individuals suspected of criminal activity The Group's Audit Committee conducted a thorough review of each of those instances and concluded that the action was justified in the public interest and subject to proper editorial oversight On 1 July 2013, Ofcom published its conclusion that the broadcaster's right to freedom of expression, including the freedom to receive and impart information and ideas without interference, in the exceptional circumstances of this case, outweighed the individuals expectation of privacy and found Sky not in breach of the Broadcasting Code

SEEING THE BIGGER PICTURE

At Sky we want to build a business that is durable for the long-term We know simply being good for Sky is not enough To achieve sustainable success, we must also be good for our customers, our people, our partners and the communities in which we live and work We call this seeing the bigger picture

Our Contribution

We are proud of the positive social and economic contribution Sky makes to Britain and Ireland as a successful and growing business

Improving our customers' lives
We have opened up choice in television bringing customers a wide range of the best content from the UK and around the world Our products offer world-leading innovation, helping customers to manage their lives better by allowing them to watch TV and go online where, when and how they choose Our news service makes a vital contribution to media plurality in the UK, offering innovative multi-media coverage 24 hours a day As a result, citizens are better informed and more engaged with democratic society

We are bringing competition to the home communications market helping millions of people to get online in an easy and affordable way As a result they are more connected to each other and to society as a whole

Investing in the creative industries and sport
Over the past year, we have worked with more of the country's leading writers producers and actors to bring great new ideas to screen We are on track to meet our commitment to spend £600 million a year on UK production and commissioning by the end of 2014 We have worked with hundreds of production companies providing a platform for their creativity and helping them grow their own businesses

We are a long-term supporter of sport at all levels We have contributed over £15 billion to British and Irish sports organisations over the last 22 years and helped to create more fans for a wide range of different sports Our investment has enabled sports bodies to improve performance commercial value participation and infrastructure at all levels

We have created a distribution platform that is now in over 40% of British and Irish homes enabling scores of other broadcasters to reach an audience and build their business We have also been a global pioneer of new technologies like digital HD and 3D TV which have subsequently become industry standards

We are committed to training and developing our people From dedicated programmes for apprentices and graduates through to life-long learning for our most experienced employees we understand that the skills of our people are integral to our commercial success (see pages 21 to 23)

Contribution to the UK economy
Sky makes a significant contribution to UK GDP, estimated in a study by Oxford Economics to be £5 9 billion over the past year Seventy-six per cent of our revenue was retained in the UK where we also worked with over 6 600 suppliers

With over 24,000 people we are now one of the country's biggest employers Our impact on the wider economy has become increasingly significant, with 120 800 jobs dependent on Sky across the UK in the past year

Sky generated a £2 7 billion contribution to tax revenues in the last year, equivalent to £43 for every person in the UK Our direct tax contribution was £1 3 billion consisting of taxes borne of £440 million and taxes collected of £810 million

A Responsible Business

Acting responsibly and being successful commercially go hand in hand Millions of homes across Britain and Ireland choose Sky They have high expectations of us, trusting us to do the right thing Our high ethical, social and environmental standards are essential to maintaining that trust and underpin the decisions we take every day

This approach is integral to the culture and values we seek to promote at Sky It's set out through a series of commitments in our Ways of Working, which is our code of conduct that everyone who works at Sky is expected to adhere to

Our commitment to customers and viewers
Because we never forget that people make a choice when they buy our products or watch our programmes, we commit to treating our customers and viewers with respect and strive to make sure our services meet their needs and expectations

We maintain high editorial standards on our TV channels and online services and this year we published our Sky News editorial guidelines to help with decision-making in sensitive or difficult situations

We take our responsibilities seriously as a major advertiser and media owner We follow the relevant codes set out by the Advertising Standards Authority both for our own advertising and the advertising from others that we carry on our services

We champion diversity on-screen aiming to reflect the diverse make up of our customer base in our programmes Once again this year we supported International Women's Day showcasing leading female directors presenters and women in sport over a week in March As part of our diversity and inclusion commitment we have increased the representation of women as expert commentators on Sky News pieces from 25% to 33% over the past 18 months

Review of our business

continued

We help parents to keep their children safe on our TV platform and online providing them with effective and easy to use tools and making sure they understand how to use them Over the past year, we have worked with industry government and a range of non-government organisations to develop a leading approach to supporting customers to keep their families safe online We have encouraged our customers to activate our free parental controls tools and made it a requirement for all new Sky Broadband customers to make a choice about whether they want these controls or not We made a strong contribution to raising the awareness of Safer Internet Day 2013 with coverage on Sky News Sky Sports radio and our digital channels

Over the year more than 1,605 young people created their own Sky news report about using the internet and social networking tools safely in Sky Skills Studios our state-of-the-art free learning experience that s linked to the curriculum They have helped raise awareness more widely by sharing their videos with their schools, parents and friends

We make our products and services accessible to everyone, including those with disabilities We provide subtitling and audio description on our TV channels and exceed the Ofcom requirements

Access service provision against Ofcom requirements(i)

Key performance indicator	2010/11 Annual Quota	2010/11 Achieved	2011/12 Annual Quota	2011/12 Achieved	2012/13 Annual Quota	2012/13 Achieved
Subtitling (%)(ii)	60	68	70	74	70	73
Audio Description (%)(iii)	10	27	10	26	10	21

Notes
(i) 2011/12 and 2012/13 data is independently assured by Deloitte LLP and can be viewed online at sky com/biggerpicture
(ii) Average across Sky News Sky1 Sky Sports 1 Sky Sports News and Sky Movies Premier
(iii) Average across Sky1 Sky Sports 1 and Sky Movies Premier Sky News and Sky Sports News are exempt

We continue to work with customers and organisations representing disabled people to make sure our current and future products include specially designed features to meet their needs This year is the 10th anniversary of our 80 strong Accessible Customer Service team who continue to provide specialised support to customers with disabilities

Our data management practices are overseen by our Executive Data Governance Committee which reports in turn to the Audit Committee We take steps to make sure our customers' personal information is kept confidential and secure and is only used for clearly communicated authorised purposes Our new product Adsmart enables us to use our knowledge of our customers to deliver them more tailored and relevant advertising. We make sure our customers can opt-out if they prefer us not to use their data in this way

Our commitment to colleagues and the company
Because our people are critical to our success, we want to create a culture where they can do their best work and fulfil their potential Equally, everyone at Sky has a responsibility to the Company to protect its assets and its reputation and to play their part in building a successful and durable business We champion diversity in our workforce and make sure our people are safe at work (see pages 21 to 23)

Our commitment to shareholders
We take seriously our responsibilities as a major British business listed on the London Stock Exchange, maintaining high standards of corporate governance and taking steps to ensure our communications with investors are clear open and timely Our Board oversees the alignment of the Company's strategy with the interests of our investors and takes account of the interests of our stakeholders (see page 60)

Our commitment to business partners
Because our business relies on strong partnerships with many suppliers and distributors, we want to build productive fair and collaborative relationships with them based on mutual improvement

We expect everyone we do business with to deliver a high-quality service and provide good value for money, as well as to behave ethically and comply with all relevant laws and regulations We want to be a good partner in return, treating suppliers fairly rewarding good performance and meeting all of our obligations to them

We promote better social and environmental standards through our Responsible Sourcing Principles which we expect all our suppliers to embrace Over the past year, we have improved our Responsible Sourcing Programme, refining how we communicate our social and environmental expectations to suppliers and enhancing the tools we use to assess performance so that they are easy to use and support industry standards We have also undertaken audits of key strategic suppliers such as product manufacturers to assess their performance against our Responsible Sourcing Principles, working with them on areas for improvement

Our commitment to the environment
Because we want to build a business that is sustainable for the long term we understand the importance of minimising our environmental impact and taking a leadership position in the business community

We know that operating efficiently saving energy and using natural resources wisely helps us to be a better business as well as contributing to a more sustainable future for everyone To achieve this, we have set out a series of bold environment targets and commitments expanded in November 2012, so that we have fewer environmental impacts and better more sustainable products

We continue to make very good progress on reducing our impacts Over the last year, we have reduced our carbon intensity by 33% against the baseline we set in 2008/09 and we are on track to meet our new target of a 50% reduction by 2020, having reached our previous target of a 25% reduction last year Our absolute gross emissions are stable at 100 045 tonnes

Our continued long-term investment in low-carbon and renewable energy technologies on our sites in London and Scotland means we are now sourcing 6% of our energy from our on-site wind turbine, Combined Cooling, Heat and Power plant and biomass boiler

We have further improved the environmental sustainability of our products, measuring ourselves against a set of ambitious objectives and commitments which we review and update each year Our new Sky+HD boxes now use less than 0 5W in passive standby and have an "eco-mode function that automatically puts the box into this passive state Over the year we have been working to make our new products more energy efficient than previous models We use life-cycle assessment, such as the one we completed this year on our new Sky Hub our wireless router to up skill the product designers in our business on how to reduce environmental impacts effectively

We are sharing what we have learned with non-government organisations, other companies and policy makers in order to drive positive change on low carbon energy technologies and renewable energy We also share our knowledge by working alongside our production companies to enable them to measure and reduce the environmental impacts of film making We collaborate closely with our key product manufacturers on process efficiencies and with our logistics suppliers ensuring together we provide efficient and effective distribution, maintenance and end-of-life recycling for our Sky products

Our total CO_2e emissions(i)

Key performance indicator	Baseline	2009/10	2010/11	2011/12	2012/13
Total gross CO_2e emissions (tCO_2e)(ii)(iii)	107215	110 531	109 042	100 272	100 045
Total net CO_2e (tCO_2e)(iv)	35 860	44 198	35 070	24 866	26 564

Notes
(i) 2013 data is independently assured by Deloitte LLP and can be viewed online at sky com/biggerpicture
(ii) Historical data is recalculated each year in line with the latest Guidelines to Defra/DECC s Greenhouse Gas Conversion Factors for Company Reporting and re-stated accordingly
(iii) tCO_2e emissions including emissions from premises and company-owned vehicles (Scope 1 and 2)
(iv) Our net emissions take into account the renewable energy procured from a renewable energy tariff with Scottish and Southern Energy Group Scottish and Southern retain on our behalf the Levy Exemption Certificates and Renewable Energy Guarantee of Origin (REGOs) In addition we offset our total gross emissions through the purchase of Voluntary Carbon Standard credits

Our carbon intensity(i)

Key performance indicator	Target	Baseline	2009/10(ii)	2010/11(ii)	2011/12(i)	2012/13(i)
Carbon intensity (CO_2e/£m revenue)		20 7	19 1	16 3	14 8	13 8
Change in total gross tonnes per £million revenue (CO_2e/£m) (%)(ii)(iii)(iv)	-50		-8	-21	-29	-33

Notes
(i) 2011/12 and 2012/13 data is independently assured by Deloitte LLP and can be viewed online at sky com/biggerpicture previous years data was independently assured by ERM
(ii) Performance relative to base year 2008/09
(iii) Target is to halve our emissions (tonnes) relative to revenue (£m) by 2020
(iv) Historic data is recalculated each year in line with the latest Guidelines and Defra/DECC s Greenhouse Gas Conversion Factors for Company Reporting and re-stated accordingly

Progress towards our on-site renewable energy target(i)

Key performance indicator	Target	2011/12	2012/13
Sky-owned sites to obtain 20% of their energy requirement from owned or controlled renewables (%)(ii)	20	2	6

Notes
(i) 2012/13 data is independently assured by Deloitte LLP and can be viewed online at sky com/biggerpicture
(ii) Measured against baseline data for 2008/09

Our commitment to complying with the law and working with regulators, government and media
We take steps to ensure compliance with all laws and regulations that apply to our business and have well established functions across Sky to that end Because we want external stakeholders to understand our business and our contribution we engage in open and honest dialogue with regulators government and media and we respond promptly to their enquiries

Inspiring People to Take Action

As an entertainment and communications company with 11 2 million customers across Britain and Ireland we have an opportunity to reach beyond our business and make an even greater positive impact and a valuable contribution to a more sustainable society

We choose to focus on four areas that we re passionate about, where we believe Sky can make a difference and we can inspire people to take action These are improving lives through sport championing creativity and opening up the arts, helping young people to build skills for a changing world and taking action to protect the environment

Using the power of sport to excite, inspire and change lives
Sport is one of the central pillars of our content investment and we believe in its power to improve lives We bring our customers a wealth of sport on TV, and that investment – over £15 billion over the last 22 years – helps to fund the sports we all love and get people watching and playing But we want to do even more so we also work with our partners off screen, using our reach and the power of the Sky Sports brand to inspire more people to get involved

We do this through our grassroots-to-elite support for British cycling and three complementary Sky Sports initiatives each supported by Sky Sports programming, marketing talent ambassadors and staff

> **Sky Sports Living for Sport** – this national schools-based programme run in partnership with the Youth Sport Trust, uses sports stars and skills to help raise the aspirations and improve the life skills of young people Now in its tenth year, over 1,500 or one third of all schools across the UK, participated this academic year Over 30 000 students benefitted with 96% of lead teachers reporting improvements in self-confidence and 90% reporting improvements in attitudes to learning amongst the students over the past academic year

Raising aspirations and building life skills through Sky Sports Living for Sport(i)

Key performance indicator	Target	2009/10	2010/11	2011/12	2012/13
Number of schools taking part(ii)	1500	269	376	866	1 517(iii)

Notes
(i) 2011/12 and 2012/13 data is independently assured by Deloitte LLP and can be viewed online at sky com/biggerpicture
(ii) Each year
(iii) In the 2012/13 year as measured from 1 September 2012 to 1 June 2013

> **Sky Sports Scholarships** – this mentoring and sponsorship programme supports some of Britain and Ireland s most exciting emerging athletes helping them to fulfil their potential on the international stage and prepare them for life in the spotlight We supported 11 scholars many of whom went on to achieve international success at the World Championships European

Review of our business

continued

Championships and London 2012 We have now recruited the next cohort of athletes in anticipation of similar success

> **Sky Sports ECB (England and Wales Cricket Board) Coach Education Programme** – this programme has played a key role in attracting and training cricket coaches in England and Wales equipping them with the skills necessary to deliver high-quality coaching at all levels of the game, ensuring the success of the sport with a new generation of players Over 50 000 places have been taken up on courses since the scheme started in 2007

> **Cycling** – our ground-breaking partnership with British Cycling aims to get more people on their bikes through the inspiration of elite success by Team GB and Team Sky, combined with our grassroots Sky Ride initiatives that make it easy to participate Since the start of the partnership in 2008, our elite cyclists have achieved unprecedented success with 41 Olympic and Paralympic Gold Medals and two British winners of the Tour de France Last summer 146,100 people took part in the Sky Ride events we held across the country Sky Ride Local, our guided ride programme delivered locally throughout the UK resulted in over 17,000 people participating In September last year we met our target of over one million more people across the country cycling regularly, one year ahead of schedule

Improving lives through cycling(i)

Key performance indicator	Target	2009/10(iii)	2010/11(iii)	2011/12(iii)	2012/13(iii)
Number of new people cycling regularly by 2013(ii)	1 million	92 000	376 000	688 000	1 15 million

Notes
(i) 2011/12 and 2012/13 data is independently assured by Deloitte LLP and can be viewed online at sky com/biggerpicture
(ii) Number of new people cycling on average once a month or 12 times a year as a result of Sky s initiatives
(iii) Cumulative year on year

Championing creativity and opening up the arts
Millions of people love the arts but it s not always easy to see favourite artists and performers We believe in opening up the arts to more people That's why Sky Arts broadcasts 48 hours of arts programmes a day, covering the whole range from classical arts to rock concerts But we want to do more than just showcase the arts on screen we want to do our bit to ensure great ideas reach their full potential by working with the artistic community to help create new works of art today and develop new talent for tomorrow

We do this through Sky Arts Ignition and Sky Arts Futures Fund

> **Sky Arts Ignition** – this series of partnerships with leading arts organisations across Britain and Ireland aims to support the creation of innovative new works and events that might otherwise never get off the ground In September 2012 we launched an award winning first collaboration with Tate Liverpool and renowned multimedia artist Doug Aitken to create Sky Arts Ignition The Source an outdoor installation exploring the roots of creativity which was visited by almost 50 000 people In June 2013 we worked with the V&A to bring Sky Arts Ignition Memory Palace to life a unique exhibition based on the power of memory We are investing in the thriving Irish arts landscape with our third project which will launch in Ireland in the coming financial year

> **Sky Arts Futures Fund** – we are boosting the careers of five emerging young artists a year by providing them with a £30 000 bursary together with support and mentoring from senior Sky staff and arts industry experts to develop their commercial skills and knowledge In 2013 audiences have enjoyed experiencing the successful projects from the first artists we supported, such as Opera Director Daisy Evan s *Silent Opera* and Theatre Director Felix Mortimer's *The Trial* This year following on from the five we supported in 2012, we have chosen five more young artists from disciplines such as creative production composition and poetry

Engagement with Sky Arts activities on the ground at *Sky Arts Ignition The Source* at Tate Liverpool(i)

Key performance indicator	Target	2012/13
Number of visitors	42 000	49 543

Note
(i) 2012/13 data is independently assured by Deloitte LLP and can be viewed online at sky com/biggerpicture

In addition we broadcast *Mariella s Book Show* live in front of studio audiences at the Cheltenham and Hay Literature festivals, as well as championing moments of creativity amongst festival goers, offering free creative classes and inspiring performances in the Sky Arts Den

Helping young people to build skills for a changing world
We know that future success not just for Sky but also for society as a whole, depends on equipping young people with the skills they need for a changing world That's why training and development is a high priority right across our business from front line staff to future leaders But we want to go further reaching beyond our employee base to open up Sky to more young people raising their aspirations and helping them learn valuable new skills

As well as running strong graduate and apprenticeship programmes, we do this through practical work experience opportunities and our dedicated learning facility for schools on our campus in West London

> **Sky Skills Studios** – opened in September 2012, this unique free learning experience takes schools behind the scenes at Sky in our state of the art broadcasting facility Linked to the curriculum, it helps students to build life skills by working with our latest technology to make their own television report on subjects they re studying at school We set a target of welcoming over 12,000 young people in the first academic year and we are on track reaching 9,500 by the end of June 2013

Raising aspirations and building life skills through Sky Skills Studios(i)

Key performance indicator	Target(ii)	2012/13(iii)
Number of young people taking part	12 000	9 588

Notes
(i) 2012/13 data is independently assured by Deloitte LLP and can be viewed online at sky com/biggerpicture
(ii) In the first year from September 2012 to August 2013 the target will be 10 000 for the next academic year
(iii) Until 30 June 2013

> **Work experience, apprenticeships and graduate schemes** – read more about these on pages 21 to 23

> **Our local communities** – we are investing in long-term relationships with local schools near our campuses in Hounslow, Scotland and Leeds to help build life skills Our network of Sky volunteers play an active role in our local communities with 1 691 people volunteering their time to help make a difference in 2013 As well as all staff having two paid days to volunteer each year our employees can make tax-free donations to any UK registered charity of their choice

and we give an extra 50p for every £1 donated We also support employees fundraising through our match funding scheme

Taking action to protect the environment
We recognise that climate change is one of the world's biggest challenges and we have a responsibility to take action We want to do more than minimising the environmental impact of our operations and our products An even bigger opportunity lies in working together with our 11 2 million customers to inspire them to join with us to tackle climate change

> Sky Rainforest Rescue – we are now in the fourth year of our partnership with WWF and the state government of Acre in Brazil to help save one billion trees in the Amazon rainforest and protect the region s rich natural diversity In 2013, we worked with Lily Cole, Sky Rainforest Rescue Ambassador model and environmentalist focusing on raising awareness of the threat of tropical deforestation at home in Britain and Ireland We ve raised an additional £1 million, to bring the amount raised to £3 million since 2009 which Sky has matched pound for pound to a total of £6 million We've also worked with over 1 200 families in local communities on the ground in Brazil to make the forest worth more alive than dead

Funds raised for Sky Rainforest Rescue

Key performance indicator	Target	2009/10	2010/11	2011/12	2012/13
Total donations since the launch of Sky Rainforest Rescue in 2009 (£)[i][ii]	4 million[iii]	335 000	790 000	2 million	3 million
Total families helped (number)[iv][v]				1 000	1 241

Notes
(i) 2011/12 and 2012/13 data is independently assured by Deloitte LLP and can be viewed online at sky com/biggerpicture
(ii) Cumulative year on year
(iii) £4 million to 2015 which Sky will match to a total of £8 million
(iv) Families registered into the Land Certification Scheme
(v) 2012/13 data is independently assured by Deloitte LLP and can be viewed online at sky com/biggerpicture

PEOPLE

We aim to attract and select the best people and provide opportunities so that everyone can fulfill their potential We work hard to create a great place to work and build an open culture that rewards and recognises great performance

Creating opportunities

Over the last year we have provided over 1,200 additional job opportunities across a wide range of functions but specifically in Technology Sales and Marketing and Customer Service In addition to new roles created, we have moved over 1 000 of our people into different roles broadening their experience and strengthening succession for the future The new jobs and the internal development moves have been spread across our locations in the UK and Ireland

Developing Our People

Our people's performance is the key driver of our growth and success Apart from creating career development through internal job mobility we provide many opportunities for employees to build their experience and skills through a wide range of development and skills training This is achieved through face to face training by attendance on external or internally run courses through our online training and education facility, the Sky Development Studio and through coaching and mentoring.

The Development Studio has had 385,000 visits this year More than 160,000 hours of e-learning courses have been completed via the Development Studio up 93% on the last financial year In total, 104 678 development days have been undertaken this year

We have continued to build strong leadership capability of our senior team through training and the introduction of leadership surveys which provide direct feedback to managers from their teams Last year we apportioned an element of the senior managers' annual bonus directly to their performance in this area We also introduced a series of "master classes" which focused on delivering Sky's Leadership behaviours and values and continued our programme for the most senior managers and directors in conjunction with Henley Business School During the year 35 9% of those employed in management positions were females

We recognise that to offer the best service in the country, it s important for our people to be at the top of their game Across the Customer Service Group we have delivered over 600,000 hours of training and over 100 days of leadership development during the last twelve months This has included multi-skill training for advisors so that they are equipped to deal with queries over the full range of our products and leadership training for our first and second line management teams In addition we consolidated the success of our externally accredited course "Aspire' by rolling this out to Customer Service Advisors as well as Sales Advisors We have also implemented large scale training and development programmes at our newly created Dublin site

To further support the Company's "ONE Service Pilot" we ran team working sessions to promote even higher levels of collaboration across the different service activities and delivered new Service Excellence programmes for our Engineers

Investing in Future Talent and Youth

We have been investing heavily in providing opportunities for young people As well as direct entry roles we have expanded our offer of work experience and work placements this year Over 500 young people have participated in one of our schemes which range from a week s work experience programmes to a year s paid placement We also run programmes for young people who might otherwise find it difficult to find opportunities in the job market, specifically in the areas of Entertainment, Content and News The "Fast Forward" and Mama Youth" programmes have been running for several years and go from strength to strength We introduced a new programme this year in Sky News for budding journalists from either a Black Asian and Minority Ethnic (BAME) or financially disadvantaged background The scheme is supported by bursaries for those who would otherwise not be able to take up the opportunity We have also continued to develop our 17 year partnership with the National Film and Television School by developing a production diploma that we help to deliver

Review of our business

continued

We recognise more and more young people are exploring alternative options to university so we are increasing the number of apprenticeship opportunities to around 100 across Sky with brand new schemes in Marketing, Sky Production Services, Technology Contact Centres and Home Service & Supply We recruited close to 100 graduates into the business this year Our on-campus university campaign was targeted to promote applications from diverse backgrounds resulting in a 12% increase in female hires and a 1% increase in ethnic minority hires in comparison to 2011/12

Our specialist software Engineering Academy has gone from strength to strength this year hiring 24 of the brightest technology minds We invest in an intensive training programme which rapidly develops their software skills whilst exposing them to a range of live, cutting edge development projects

Employee Engagement

We want all our people to feel involved and engaged in our business Therefore we need to know what our people are thinking and how they feel about working for Sky We have a variety of ways of keeping close to our employees two of the most significant ways are the Sky Forum and the People Survey

The Sky Forum is a team of 88 elected employee representatives from across the business This year new members from Sky Ireland were elected to join the group The Sky Forum meets several times a year to discuss a wide range of business challenges and to provide input that helps Sky to continuously innovate and improve the way we operate Meetings are run throughout the year to address local issues and are supplemented by two Sky-wide meetings which are attended by the CEO and other executives Each member has a responsibility to collect the views of the people they represent and to provide information back to them Increasingly we are also able to drive information dialogue and idea generation though use of the corporate social media site 'Chatter

We run our people survey every 4 months and use external benchmark data from Towers Watson to compare our performance against other UK companies The benchmark information shows us that participation in our surveys is consistently higher than experienced elsewhere (averaging 75% across the 3 surveys this year) It also shows that we perform better than other large UK companies in 9 out of the 11 categories we measure Our score for employee engagement shows an average of 94% This is up 7 points from last year's reported figure and 11 points above the external benchmark The employee engagement category includes questions about whether our people support our strategy understand how their work contributes to it are willing to go the extra mile to help us succeed and are proud to work for Sky We are delighted that over 90% of our people continue to respond positively to these key questions

Diversity and Inclusion

We believe that a diverse workforce creates a stronger business and therefore we work to create an environment that encourages diversity and innovation We have established a number of diversity networks to connect people to information that is relevant for them and to help us ensure that our employment practices are inclusive LGBT@Sky is a network for lesbian, gay, bisexual and transgender employees we have a network for women and a Diversity and Inclusion@Sky network to champion diversity at Sky We have driven awareness of diversity and the benefits it brings to the business through use of stories and blogs on our internal communication network which often generate higher than typical page views across our intranet and the feedback is very positive We also continued the roll out of an awareness training programme on unconscious bias

This year we implemented a week long season of programmes across our channels to mark International Women's Day and also held an event at Sky Studios that was webcast to the business We work in partnership with SWIMM (Senior Women in Media Mentoring) to mentor rising (female) stars in the media industry

Overall, the proportion of female and BAME employees has held firm across the year We continue to work with a range of external partners to support our work in diversity and our relationship with the broadcasting industry's Cultural Diversity Networks (CDN) is particularly important in this regard Sky News was one of the first broadcasters to sign up to the campaign to challenge the gender imbalance among media contributors and we have made great progress in this achieving a gender balance of on-air contributors Over the last eighteen months our average ratio of male to female commentators has improved from 4 1 to 2 1

Sky is an equal opportunities employer and we believe that everyone should have full and fair consideration for all vacancies promotions, training and development Should an employee become disabled during their employment at Sky, where possible, we will actively re-train and adjust their environment to allow them to maximise their potential Over the course of the year, we have partnered with various not-for-profit organisations with the aim of providing more opportunities for people with disabilities

Health and Safety

The health and safety of all our people is of paramount importance to us

We take a holistic approach to keeping Sky a safe place to work so whilst accident prevention and safety training is a priority the long-term wellbeing of our people is equally important This year we have implemented a range of new initiatives such as Home Service and Supply's Drive Safe campaign and specific Manual Handling training We have also introduced Engineer medical assessment programmes to promote and protect the health of our field workforce a hearing protection programme for the Formula One support team and a brand new Occupational Health Service in Ireland launched following the opening of our Dublin contact centre

It is also essential that as a business we remain resilient to unexpected events and our dedicated Business Continuity Team help Sky protect the services our people deliver to our customers Last year with the London Olympics 2012 our Business Continuity Team were specifically engaged with multiple stakeholders on the contingency planning in preparation for the impact that the Olympics could have had on our business operations across the UK We have 500 people across the business now actively engaged on business continuity initiatives and training As a result our business continuity plans and our ability to execute against them continues to improve

Recognition and reward

There are a number of recognition schemes across the Company that provide us with the opportunity to reward and recognise employees who have provided exceptional customer service or have gone the extra mile in delivering their normal day to day duties In addition we continue to run an annual Corporate Scheme called "Believe in Better" that rewards outstanding achievement This year the awards had a record number of nominations with over 3 700 people and around 570 teams being nominated The 3 top winners were awarded with a long-haul holiday for them and a partner with close to 50 people receiving other significant prizes

We continued to share Sky's success with our people We awarded an above average pay increase and specifically weighted the balance of the pay review to those on lower incomes

In addition for those people choosing to participate in the Sky sharesave scheme, they saw gains of up to 90% of the original option price for options which vested in 2013

Other items included our annual two day music and entertainment event "Sky Fest" for our employees and their families which included regional events this year to reflect Sky's growing regional footprint

Principal risks and uncertainties

The Group risk register is reported formally to the Audit Committee twice a year and focused risk reporting on selected themes occurs on a quarterly basis Additional information on the Group's internal control and risk management processes is set out in the Corporate Governance Report (see page 44)

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

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

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

Description of risk	Mitigation
Market and competition	
The Group operates in a highly competitive environment and faces competition from a broad range of organisations Technological developments also have the ability to create new forms of quickly evolving competition A failure to develop the Groups product proposition in line with changing market dynamics and expectations could erode the Group's competitive position Great content is central to Skys product proposition and increased competition could impact the Groups ability to acquire content that its customers want on commercially attractive terms Economic conditions have been challenging in recent years and the future remains uncertain A significant economic decline could impact the Groups ability to continue to attract and retain customers	The Group continues to make significant investments in innovation The Groups product development strategic aim is to be at the forefront of progressive technology Please see the Review of our business" section for further details of these products The Group regularly reviews its pricing and packaging structures to ensure that its product proposition is appropriately placed within the market The Group works closely with its marketing partners to ensure that the value of its offering is understood and communicated effectively to its customers The Group makes significant investments in the origination of UK content as well as acquisition from across the world The Group also works to develop and maintain the brand value associated with its individual channels
Regulatory breach and change	
The Group is subject to regulation primarily under UK Irish and European Union legislation The regimes which apply to the Groups business include but are not limited to > Gambling – Alderney Gambling Commission regulation, > Broadcasting – the Group is subject to Ofcom s licensing regime under the Broadcasting Acts 1990 and 1996 and the Communications Act 2003 These obligations include the requirement to comply with the relevant codes and directions issued by Ofcom including for example the Broadcasting Code, the Code on the Scheduling of Television Advertising and the Cross Promotions Code Please see page 16 of the Business Review for further details of our UK broadcasting licences,	The Group manages these risks through active engagement in the regulatory processes that affect the Groups business The Group actively seeks to identify and meet our regulatory obligations and to respond to emerging requirements This includes for example > Gambling – controls and processes are in place to monitor our compliance with and our adherence to our obligations under the Alderney Gambling Commission regulations We are subject to regular independent audit by the Commission against the regulations > Broadcasting – compliance controls processes and contacts are in place in Entertainment Movies Sports and News services Interaction with Ofcom is co-ordinated between the Compliance, Regulatory and Legal departments > Platform services – processes are in place to monitor third party broadcaster access to the digital satellite platform and to ensure that this is provided on fair reasonable and non-discriminatory terms and

Description of risk	Mitigation
Regulatory breach and change *continued*	
> Platform services – as a provider of EPG and CA services the Group is subject to regulation under the Communications Act 2003 which amongst other things requires it to provide EPG and CA services to other broadcasters on fair, reasonable and non-discriminatory terms and > Telecommunications – the Group is subject to the General Conditions of Entitlement adopted under the Communications Act 2003 which impose detailed requirements on providers of communications networks and services The Group is also subject to generally applicable legislation including but not limited to competition (antitrust) consumer protection data protection and taxation The Group is currently and may be in the future, subject to proceedings and/or investigation and enquiries from regulatory authorities The Groups ability to operate or compete effectively could be adversely affected by the outcome of investigations or by the introduction of new laws, policies or regulations, changes in the interpretation or application of existing laws policies and regulations or failure to obtain required regulatory approvals or licences	> Telecommunications – compliance controls processes and contacts are in place overseen by the Customer Compliance Committee to monitor compliance and performance against the General Conditions of Entitlement The Group maintains appropriate oversight and reporting supported by training to provide assurance that it is compliant with regulatory requirements
Customer service	
The Groups business is based on a subscription model and its future success relies on building long-term relationships with its customers A failure to meet its customers expectations with regards to service could negatively impact the Groups brand and competitive position	The Group strives consistently to exceed its customer expectations to put its customers first to understand what they want and to be responsive to what they say The Group makes significant investments in order to deliver continuous development and improvement to its customer service capabilities The Group has increased and is continuing to increase the number of contact centres located across the United Kingdom and Ireland and has implemented ongoing training and development plans The Group benchmarks its customer service experience and strives to be the best in class
Technology and business interruption	
The products and services that the Group provides to its customers are reliant on complex technical infrastructure A failure in the operation of the Groups key systems or infrastructure, such as the broadcast platform customer management systems or the telecommunications networks on which the Group relies could cause a failure of service to our customers and negatively impact our brand Details of our infrastructure and technology are set out on pages 14 to 15 of the Business Review	The Group makes significant investment in technology infrastructure to ensure that it continues to support the growth of the business The Group is committed to achieve best in class business continuity standards and makes significant investments in the resilience and robustness of its business infrastructure The Group also organises regular scenario based group-wide business continuity exercises to ensure ongoing readiness of key staff, systems and sites
Supply chain	
The Group relies on a number of third parties and outsourced suppliers operating across the globe to support its supply chain A significant failure within the supply chain could adversely affect the Groups ability to deliver products and service to its customers	The Group continues to invest in its supply chain infrastructure to support its business plan commitments A robust supplier selection process is in place with appropriate ongoing management and monitoring of key partners and suppliers The Group performs regular audits of key suppliers and of their installations and wherever possible has dual supply capability

Principal risks and uncertainties

continued

Description of risk	Mitigation
Financial	
The effective management of its financial exposures is central to preserving the Group's profitability The Group has some exposure to the European financial crisis although the Group's net euro cash flows are approximately 3% of total group revenues and the Group's practice is to hold less than £10 million on deposit in euros A number of the Group's syndicate banks are headquartered in Europe but the Group does not currently anticipate drawing the RCF	The Group's finance teams are embedded within the business to provide support to management and to ensure accurate financial reporting and tracking of our business performance Reporting on financial performance is provided on a monthly basis to senior management and the Board The Group continually invests in the improvement of its systems and processes in order to ensure sound financial management and reporting The Group manages treasury risk by minimising risk to capital and providing appropriate protection against foreign exchange and interest rate movements Cash investment is made in line with the Group's strict treasury policy which is approved by the Audit Committee and sets limits on deposits based on counterparty credit ratings No more than 10% of cash deposits are held with a single bank counterparty with the exception of overnight deposits which are invested in a spread of AAAm rated liquidity funds All non-sterling debt is swapped at inception to ensure appropriate currency and interest rate protection is in place, and trading currency risk is hedged up to 5 years in advance The Group manages its tax risk by ensuring that risks are identified and understood at an early stage and that effective compliance and reporting processes are in place The Group continues to maintain an open and proactive relationship with the regulating tax authorities which are primarily HM Revenue & Customs The Group aims to deal with taxation issues wherever possible as they arise in order to avoid unnecessary disputes
Security	
The Group must protect its customer and corporate data and the safety of its people and infrastructure as well as needing to have in place fraud prevention and detection measures The Group is responsible to third party intellectual property owners for the security of the content that it distributes on various platforms (Sky's own and third party platforms) A significant breach of security could impact the Group's ability to operate and deliver against its business objectives	The Group takes measures ranging from physical and logical access controls to encryption, or equivalent technologies to manage its security risks The Group continues to invest in new technological controls and in improving broader business process and works closely with law enforcement agencies and policy makers in order to protect its assets and to comply with its contractual obligations to third parties
Projects	
The Group invests in, and delivers, significant capital expenditure projects in order continually to drive the business forward The failure to deliver key projects effectively and efficiently could result in significantly increased project costs and impede our ability to execute our strategic plans	A common project management methodology is used to enable the Group to manage monitor and control its major capital expenditure projects and strategic programmes This includes standardised reporting and monthly reviews by senior management Third party partners will where appropriate be engaged to provide support and expertise in our large strategic programmes, complex initiatives and for emerging technologies
Intellectual property protection	
The Group in common with other service providers relies on intellectual property and other proprietary rights including in respect of programming content which may not be adequately protected under current laws or which may be subject to unauthorised use Please see page 11 of the Business Review	We maintain an ongoing programme to support appropriate protections of our intellectual property and other rights This includes, for example, the use of automated on line monitoring tools the implementation of on screen imprinting of content together with an active programme to protect our trade marks

Description of risk	Mitigation
People	
People at Sky are critical to the Group s ability to meet the needs of its customers and achieve its goals as a business Failure to attract or retain suitable employees across the business could limit the Groups ability to deliver its business plan commitments	Making Sky a great place to work is central to the Group s strategy The Group champions diversity and develops talent through a number of activities including the Graduate program, Development Studio an apprenticeship scheme and a leadership programme The Group has well established channels and procedures to recruit and retain its employees and to ensure that an adequate number of suitable employees work within its customer service teams and across all its operations Further detail on our people is set out on pages 21 to 23 of the Business Review

Directors' report – Financial and operating review

INTRODUCTION

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

The Group maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year In fiscal 2013 this date was 30 June 2013 this being a 52 week year (fiscal year 2012 1 July 2012, 52 week year) For convenience purposes the Group continues to date its consolidated financial statements as at 30 June and to refer to the accounting period as a year

A reconciliation of non-GAAP measures is set out on page 114 and a detailed reconciliation of profit to adjusted profit is included in note 8 to the consolidated financial statements

OVERVIEW AND RECENT DEVELOPMENTS

During the current year total revenue increased by 7% to £7,235 million compared to the year ended 30 June 2012 ('the prior year') Adjusted operating profit for the current year increased by 9% to £1,330 million, resulting in an adjusted operating profit margin of 18 4%, compared to 18 0% in the prior year Reported operating profit was £1,291 million, compared to £1,243 million in the prior year Adjusted free cash flow was 13% higher at £1,028 million, compared to £910 million in the prior year

Adjusted profit for the year was £969 million generating adjusted basic earnings per share of 60 0 pence compared to an adjusted profit of £875 million and adjusted basic earnings per share of 50 8 pence in the prior year Reported profit for the year was £979 million, generating basic earnings per share of 60 7 pence compared to a profit of £906 million and basic earnings per share of 52 6 pence in the prior year

Our successful transition to more broadly-based growth combined with the acquisition of the O2 consumer broadband and fixed-line telephony business, has delivered an increase of 3 269 000 subscription products in the year to a total of 31 634 000 Of this increase 706,000 arose from the O2 acquisition and 2,563 000 from organic growth

At 30 June 2013, the total number of TV Customers in the UK and Ireland was 10,422,000 representing a net increase of 134 000 in the current year including subscribers to our new internet TV service NOW TV launched in July 2012 The total number of HD customers was 4 786,000 representing 46% of total TV Customers This represents growth in HD customers of 10% in the current year The number of Multiroom customers also continued to grow increasing by 87,000 in the current year to 2,489 000, 24% penetration of total TV Customers Sky Go Extra our new paid-for mobile TV service, had a total of 166 000 customers at 30 June 2013, just five months after launch

Strong growth in our home communications products is driven by both organic growth and the acquisition of the O2 consumer broadband and fixed-line telephony business The number of Broadband customers increased by 905 000 in the current year to 4 906 000 The number of Telephony customers reached 4,501,000 representing an increase of 733,000 in the current year The number of Line Rental customers increased by 801 000 in the current year to 4,364 000 In all 35% of our customer base now takes all three of TV broadband and telephony up from 32% last year

We are progressing with our plans to connect more Sky+HD boxes to the internet with 2,709 000 TV households with connected boxes as at 30 June 2013, an increase of 1,714 000 year on year

Sky Go, our mobile video service, attracts a great response from customers with quarterly unique users at 3 257,000 in the fourth quarter compared to 2,740 000 in the fourth quarter last year an increase of 19%

Our total customer base increased by 552,000 to 14,830,000 comprising 11 153 000 retail customers and 3 677,000 wholesale customers taking at least one paid-for Sky channel, increases of 547 000 and 5,000 respectively on the prior year

Churn for the current year was 10 8% (2012 10 2%) which reflects the continuing pressure on household budgets in a tough economic environment, but was within our 10% to 11% target range

During the year we unbundled 358 additional exchanges increasing our footprint to approximately 88% network coverage

CORPORATE

The Board of Directors is proposing a final dividend of 19 0 pence per ordinary share, resulting in a total dividend for the year of 30 0 pence representing growth of 18% over the prior year full-year dividend The ex-dividend date will be 13 November 2013 and, subject to shareholder approval at the Company s Annual General Meeting ('AGM') the dividend will be paid on 6 December 2013 to shareholders of record on 15 November 2013

On 29 November 2011 at the Company's AGM, the Company was granted the authority to return £750 million of capital to shareholders via a share buy-back programme (the 'November 2011 Authority') This authority was subject to an agreement between the Company and Twenty-First Century Fox, Inc (formerly known as News Corporation) (and others) dated 28 July 2011 whereby following any market purchases of shares by the Company Twenty-First Century Fox, Inc would sell to the Company sufficient shares to maintain its percentage shareholding at the same level as applied prior to those market purchases The price payable to Twenty-First Century Fox, Inc would be the price payable by the Company in respect of the relevant market purchases (the "2011 Share Buy-back Agreement')

At the Company's AGM on 1 November 2012, the Company was granted the authority to return a further £500 million of capital to shareholders via a share buy-back programme (the November 2012 Authority") This authority was subject to an agreement between the Company and Twenty-First Century Fox, Inc (and others) dated 28 July 2012 on substantially the same terms as the 2011 Share Buy-back Agreement

On 25 July 2013 the Board agreed to seek the necessary approvals to return a further £500 million of capital to shareholders via a share buy-back programme Shareholder approvals will be sought at the Company's AGM on 22 November 2013 The Company has entered into an agreement with Twenty-First Century Fox Inc (and others) under substantially the same terms as the 2011 Share Buy-back Agreement The agreement is conditional on the appropriate shareholder approvals being granted The effect of the agreement is to provide that there will be no change in Twenty-First Century Fox Inc s economic or voting interests in the Company as a result of the share buy-back programme

In the year to 30 June 2013, the Company repurchased for cancellation 80 549 699 ordinary shares representing 5% of the Company's issued share capital as at 30 June 2013 for a total consideration of £627 million which included stamp duty and commission of £3 million This comprised 25 million shares under the November 2011 Authority and 56 million shares under the current November 2012 Authority The closing share count at the end of the financial year was 1,593,905 182

US$800 million of 3 125% Guaranteed Notes, repayable in November 2022, were issued in November 2012 At the time of issuing these notes the US dollar proceeds were swapped into pounds sterling (£503 million) After hedging, 100% of the resulting sterling liability was subject to fixed interest rates at an average rate of 3 23%

On 30 April 2013 the Group completed the purchase of the O2 consumer broadband and fixed-line telephony business from Telefónica UK Total consideration comprised £180 million of cash relating to the purchase price contingent consideration of £20 million and a £5 million provisional cash adjustment relating to working capital and active subscribers

OPERATING RESULTS

Revenue

Our revenue is principally derived from retail subscription, wholesale fees, advertising and installation, hardware and servicing

Our retail subscription revenue is a function of the number of customers (residential and commercial) including those subscribing to a TV product or a standalone home communications product the mix of services subscribed to and the rates charged Revenue from the provision of pay-per-view services which include Sky Box Office and Sky Store is included within retail subscription revenue

Our wholesale subscription revenue which is revenue derived from the supply of Sky Channels to cable, DTT and Internet Protocol Television ("IPTV") platforms is a function of the number of subscribers on the relevant operators platforms the mix of services subscribed to and the rates charged to those wholesale operators

Our advertising revenue is mainly a function of the number of commercial impacts defined as individuals watching one thirty second commercial on our wholly-owned channels together with the quality of impacts delivered and overall advertising market conditions Advertising revenue also includes net commissions earned by us from the sale of advertising on those third party channels for which we act as sales representative

Installation, hardware and service revenue includes income from set-top box sales and installation, service calls and warranties

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

Operating expense

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

Programming costs include payment for (i) licences of television rights from certain US and European film licensors including the results of foreign exchange programme hedges (ii) the rights to televise certain sporting events and sports production costs, (iii) other programming acquired from third party licensors (iv) the production and commissioning of original programming and (v) the rights to retail the Sky Distributed Channels to TV Customers The methods used to amortise programming inventories are described in section (g) of note 1 to the consolidated financial statements "Inventories"

Under our current pay television agreements with the US major movie studios we generally pay a US dollar-denominated licence fee per current movie calculated on a per movie subscriber basis During the year, we managed our US dollar / pound sterling exchange risk primarily by the purchase of forward foreign exchange contracts and currency options (collars) for up to five years ahead (see note 22 to the consolidated financial statements)

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

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

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

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

Transmission technology and fixed network costs include costs that are dependent upon the number and annual cost of the satellite transponders that we use Our transponder capacity is primarily supplied by the SES Astra and Eutelsat satellites Transmission, technology and fixed network costs also include the costs associated with transmission, uplink home communications connectivity costs and the costs of our broadcasting facility, Sky Studios

Directors' report – Financial and operating review

continued

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

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

Current year compared to prior year

Revenue

The Group s revenue can be analysed as follows

	2013		2012	
For the year to 30 June	£m	%	£m	%
Retail subscription	5 951	82	5 593	82
Wholesale subscription	396	6	351	5
Advertising	440	6	440	7
Installation hardware and service	87	1	98	1
Other	361	5	309	5
	7,235	100	6,791	100

Group revenue increased by 7% to £7,235 million (2012 £6 791 million), with growth in both retail and wholesale operations and improvement in the more cyclical operations in advertising and pubs and clubs

Retail subscription revenue grew by 6% to £5 951 million (2012 £5 593 million) reflecting continued product and customer growth and the benefit of price increases which came into effect in September 2012

Wholesale subscription revenue increased by 13% to £396 million (2012 £351 million) as we continue to benefit from greater take-up of Sky premium channels on other platforms despite the volume of wholesale subscribers remaining flat

Advertising revenue was flat year on year at £440 million (2012 £440 million) as a result of headwinds impacting the sector, including the impact of market decline in the first quarter as a result of the Olympics, offset by growth underpinned by increased ratings for our media partner channels, with whom we share revenue upside

Installation, hardware and service revenue of £87 million was lower year on year (2012 £98 million) due to improved product reliability, an increased number of customer self-installations and right-first-time engineer visits

Other revenue increased by 17% to £361 million (2012 £309 million) due to continued strong performance from Sky Bet which saw an increase in unique users in the year and growth in international programme sales due to more original commissions

Operating expense

The Group's operating expense excluding adjusting items (as detailed on page 31) can be analysed as follows

	2013		2012	
For the year to 30 June	£m	%	£m	%
Programming	2 486	42	2 298	42
Direct networks	715	12	676	12
Marketing	1 116	19	1 064	19
Subscriber management and supply chain	647	11	621	11
Transmission technology and fixed networks	401	7	395	7
Administration	540	9	514	9
	5,905	100	5,568	100

Direct Costs

Programming costs increased by 8% to £2 486 million (2012 £2 298 million) in line with our expectations Sports accounted for the majority of the absolute increase due to the inclusion of Formula 1, Ryder Cup and Lions costs not in the prior year Movie costs increased and included investment in expanded rights agreements to support new product offerings such as Sky Go Extra and NOW TV Entertainment costs saw the largest percentage increase (15% year on year) as we continued to invest in new and exclusive UK-commissioned content across our channel portfolio

Direct network costs increased by only 6% to £715 million (2012 £676 million) despite a 15% growth in home communications product volumes on an organic basis reflecting our work on network efficiency within our communications operation

Other Operating Costs

Marketing costs increased 5% to £1 116 million (2012 £1 064 million), although reduced by 30 basis points as a percentage of sales year on year Lower cost route-to-market sales and lower acquisition volumes helped to offset additional marketing spend to support the launch of NOW TV and a national broadband campaign which included the launch of fibre in the second half of the year

Subscriber management and supply chain costs were up 4% at £647 million (2012 £621 million) driven largely by higher Sky Italia set-top box sales and higher broadband volumes

Transmission, technology and fixed network costs increased by 2% to £401 million (2012 £395 million) due to the increased transmission of additional content from the Formula 1 channel Sky Go, NOW TV and On Demand largely offset by continued efficiencies

Administration costs were up 5% at £540 million (2012 £514 million) reflecting the biennial phasing of our share incentive plans Excluding this, administration costs would have been flat on last year

Operating profit and operating margin

Adjusted operating profit increased by 9% to £1,330 million in the current year, as a result of strong growth in subscription revenue and cost efficiencies in our operations Adjusted operating margin (calculated as total revenue less all operating expense as a percentage of total revenue) for the current year was 18 4%, compared to 18 0% in the prior year

Reported operating profit increased by 4% to £1,291 million in the current year as a result of the factors described above and the one-off items outlined in "Adjusting items" below

Joint ventures and associates
Joint ventures are entities in which we hold a long-term interest and share control under a contractual arrangement with other parties Our equity share of the net operating results from joint ventures and associates increased by £7 million to £46 million in the current year This included a profit on disposal of a joint venture of £9 million, arising from the sale of our investment in MUTV Limited In the prior year this included a profit on disposal of a joint venture of £7 million, arising from the sale of our investment in Chelsea Digital Media Limited

Investment income and finance costs
Finance costs have decreased by 3% to £108 million (2012 £111 million) as the result of a £5 million write-off of the previous RCF facility fee in the prior year and a £4 million increase in non-cash fair value gains on derivative financial instruments not qualifying for hedge accounting and hedge effectiveness This has been offset by an additional interest charge arising from the issue of the $800 million Guaranteed Notes entered into in November 2012

Taxation
The total tax charge for the current year of £278 million (2012 £283 million) comprises a current tax charge of £288 million (2012 £270 million) and a deferred tax credit of £10 million (2012 charge of £13 million) The lower tax charge in the current year was primarily due to the lower UK corporation tax rate

Profit for the year and earnings per share
Profit for the year was £979 million, compared to £906 million in the prior year The increase in profit was primarily due to growth in subscription revenue and cost efficiencies in our operating expenditure

The Group's earnings per share are as follows

	2013 pence	2012 pence
Earnings per share from profit for the year		
Basic	60 7	52 6
Diluted	59 7	52 2

In order to provide a measure of underlying performance management has chosen to present an adjusted profit for the year which excludes items that may distort comparability See note 8 to the consolidated financial statements for a detailed reconciliation between profit and adjusted profit for the year

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

	2013 pence	2012 pence
Basic	60 0	50 8
Diluted	59 1	50 4

Adjusting items
In the current year reported operating profit of £1,291 million included a net charge of £39 million relating to the adjusting items outlined below

In the current year we recognised a gain of £32 million relating to a credit note received from BT following an Ofcom determination that BT had overcharged for Ethernet services between 2006 and 2009 During the year we also reached a final settlement of disputes with a former manufacturer of set-top boxes supplied between 2004 and 2008, resulting in a gain of £33 million

In each of these instances it was our customers who were most impacted Accordingly we decided to pass the benefits of the resolution of these disputes back to customers with two one-time programmes First, we targeted a small cohort of around 150,000 of our customers who currently have one of the earliest versions of our Sky+HD box to offer them a free upgrade to the current version allowing them the same functionality as the vast majority of HD customers Second, we are offering wireless connectors to selected Sky Movies customers enabling them to connect their existing Sky+HD box to the full range of On Demand services We recognised a charge in the year for these two one-off initiatives of £56 million

Reported operating profit for the year also included a £33 million charge relating to a corporate efficiency programme resulting in the redundancy of approximately 250 head office employees and £15 million of costs relating to the acquisition and integration of O2's consumer broadband and fixed-line telephony business

Reported profit for the year included a gain of £9 million on the disposal of our investment in MUTV Limited and a gain of £23 million for mark-to-market gains relating to the remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness

In the prior year reported operating profit of £1,243 million included a net benefit of £20 million This consisted of a £31 million gain relating to the break fee from News Corporation (subsequently renamed Twenty-First Century Fox, Inc) net of related costs, and £11 million of restructuring costs which comprised severance payments in relation to approximately 35 senior roles as part of a restructuring initiative to improve operational efficiency both of these amounts were classified as administration costs

In the prior year, reported profit for the year included a cost of £5 million due to writing off fees relating to the previous RCF a gain of £7 million on the disposal of our investment in Chelsea Digital Media Limited and a gain of £19 million for mark-to-market gains relating to the remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness

Tax adjusting items and the related tax effects on the above items resulted in a £17 million credit (2012 £10 million charge)

Balance sheet
During the year, total assets increased by £836 million to £6,345 million at 30 June 2013 Non-current assets increased by £542 million to £3 776 million, primarily due to an increase of £288 million in intangible assets and property, plant and equipment and an increase of £194 million in available-for-sale investments significantly resulting from the increase in the value of our investment in ITV plc

Directors' report - Financial and operating review

continued

Current assets increased by £294 million to £2,569 million at 30 June 2013 This increase was significantly due to a £236 million net increase in cash and cash equivalents and short-term deposits driven by the proceeds from the November 2012 bond issue, and a £92 million increase in inventories resulting from further investment in programming content

Total liabilities increased by £768 million to £5,333 million at 30 June 2013 Current liabilities increased by £219 million to £2,317 million, primarily due to an increase in trade and other payables Non-current liabilities increased by £549 million to £3 016 million, principally due to a £511 million increase in the Group's non-current borrowings following the November 2012 bond issue

Foreign exchange

For details of the impact of foreign currency fluctuations on our financial position and performance see note 22 to the consolidated financial statements

Liquidity and capital resources

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

	As at 1 July 2012 £m	Cash movements £m	Non-cash movements £m	As at 30 June 2013 £m
Current borrowings	8	(1)	4	11
Non-current borrowings	2,398	498	13	2,909
Borrowings-related derivative financial instruments	(356)	-	29	(327)
Gross debt	**2,050**	**497**	**46**	**2 593**
Cash and cash equivalents	(464)	(351)	-	(815)
Short-term deposits	(710)	115	-	(595)
Net debt	**876**	**261**	**46**	**1,183**

The Group refers to net debt in discussing its indebtedness and liquidity position Net debt is a non-GAAP measure that management uses to provide an assessment of the overall indebtedness of the Group The most similar IFRS GAAP measures are current and non-current borrowings, see note 20 to the consolidated financial statements

Management uses net debt to calculate and track adherence to the Group s borrowing covenants, as disclosed in note 20 to the consolidated financial statements Management monitors the Group s net debt position because net debt is a commonly used measure in the investment analyst community and net debt with certain adjustments is a key metric used by Moody s and Standard & Poor s in their assessment of the Group s credit rating As such, management makes decisions about the appropriate investing and borrowing activities of the Group by reference to, amongst other things net debt

Our long-term funding comes primarily from our issued equity and US dollar and sterling-denominated debt For details of the Group s facilities, long-term funding, indebtedness position and the terms of material debt arrangements, including compliance with borrowing covenants, see note 20 to the consolidated financial statements For details of the Group s treasury activities see note 22 to the consolidated financial statements

Our principal source of liquidity is cash generated from operations, combined with access to a £743 million committed RCF which expires on 31 October 2017 At 30 June 2013 this facility was undrawn (30 June 2012 undrawn)

Cash flow

Adjusted free cash flow increased by 13% to £1 028 million (2012 £910 million) reflecting growth in adjusted EBITDA, a positive working capital movement, lower interest and capital expenditure

Capital expenditure of £454 million (2012 £457 million) was slightly lower than last year despite an increase in investment in the fourth quarter as we started the construction of a new building on our main site and commenced the integration of acquired O2 fixed-line and telephony customers

Net debt increased to £1,183 million (2012 £876 million) primarily as a result of the share buy-back and dividend growth Gross debt was £2,593 million with £1 410 million of cash and cash equivalents at 30 June 2013 The Group's liquidity and headroom remain comfortable

Trends and other information

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

The total number of paid-for subscription products was 31,634,000 an increase of 3 269 000 during the year Paid-for subscription products consist of TV, HD, Multiroom Sky Go Extra Broadband, Talk and Line Rental products This includes the impact of the acquisition of the O2 consumer broadband and fixed-line telephony business

The total number of retail customers including standalone home communications customers, was 11 153 000, an increase of 547000 customers during the year, including the impact of the acquisition of the O2 consumer broadband and fixed-line telephone business

We expect growth in the number of products sold and customer numbers to continue as a result of the quality choice, reliability and value of the services that we provide which is expected to generate increased retail revenue on a per customer basis

Churn for the current year was 10 8%, compared to 10 2% in the prior year Over the medium term we expect our churn to remain broadly around this level

During the current year, the number of wholesale subscribers taking at least one paid-for Sky channel in the UK and Ireland was 3 677000 compared to 3 672,000 in the prior year Our wholesale subscribers are wholly dependent on the strategies of the relevant wholesale operators generally as they relate to the distribution of our Channels (for further details see 'Directors report - Business review - Review of our business" on page 10)

Advertising revenue was flat year on year In the short term the UK television advertising sector is expected to remain volatile and challenging reflecting the continued wider economic uncertainty

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

Direct network costs increased during the current year and are expected to increase in future years The expected increase reflects increasing Sky Broadband and Sky Talk subscribers, scaling our LLU presence and the growth of broadband traffic to support incremental customers and fibre capability increasing Irish broadband subscribers and increased usage per customer

Marketing costs increased in the year and are expected to increase in future years in order to maintain our share of voice in an increasingly competitive environment

Subscriber management and supply chain costs were flat year on year The level of growth in both the total number of customers and the number of additional services taken by our customers (for example HD) will remain key drivers of these costs in future as will our ability to deliver rate efficiency improvements across our contact centre and supply chain operations

Administration costs, excluding the impact of phasing of our share incentive plans were flat year on year Going forward, our aim is to hold the rate of growth in administration costs below that of revenue growth

Off-balance sheet arrangements

At 30 June 2013, the Group did not have any undisclosed off-balance sheet arrangements that require disclosure as defined under the applicable rules of IFRS

Events after the reporting period

On 25 July 2013 the Board agreed to seek the necessary approvals to return a further £500 million of capital to shareholders via a share buy-back programme

For further details see note 30 to the consolidated financial statements

Board of Directors


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1 Nick Ferguson CBE
Chairman

Appointed to the Board 15/06/2004
Nationality British

Committee membership
Member of the Remuneration and Corporate Governance & Nominations Committees

Skills and experience
Extensive experience in leadership roles in the finance sector Co-founder and instrumental in the development of Schroder Ventures (the private equity group which later became Permira) of which he served as Chairman from 1984 to 2001 Prior to his appointment as Chairman of the Company on 3 April 2012, he served as Deputy Chairman and Senior Independent Non-Executive Director Chairman of Alta Advisers Limited an investment advisory firm, since January 2007 Former Chairman of the Courtauld Institute of Art for ten years before retiring in July 2012 Chairman of SVG Capital plc, a public quoted private equity group from April 2005 to November 2012

2 Jeremy Darroch
Chief Executive Officer

Appointed to the Board 16/08/2004
Nationality British

Skills and experience
Jeremy joined the Company as Chief Financial Officer (CFO) in 2004 and was appointed CEO in December 2007 He has extensive experience in the retailing and fast-moving consumer goods sectors Prior to joining the Company Jeremy was Group Finance Director of DSG International plc (DSG), formerly Dixons Group plc and prior to DSG he spent 12 years at Procter & Gamble in a variety of roles in the UK and Europe

Until June 2013 Jeremy was Non-Executive Director and the Chairman of the Audit Committee of Marks and Spencer Group plc Jeremy is a Board Member of the charity Youth Sport Trust and is a Business Member of the National Centre for Universities and Business

3 Andrew Griffith
Chief Financial Officer

Appointed to the Board 07/04/2008
Nationality British

Skills and experience
An experienced finance professional Andrew joined the Company in 1999 and held a number of senior finance roles prior to his appointment as CFO in April 2008 In addition to his role as CFO Andrew has executive responsibility for Sky's commercial businesses, including advertising, data services and broadcasting to licensed premises Andrew joined the Company from Rothschild the investment banking organisation where he provided financial and strategic advice to corporate clients in the technology media and telecommunications sector He has a degree in law from Nottingham University and is a member of the 100 Group of Finance Directors and Advisory Board of the Oxford University Centre for Business Taxation.

4 Chase Carey
Non Executive Director

Appointed to the Board 30/01/2013
Nationality American

Skills and experience
An executive with extensive media and Pay TV experience Chase is President and Chief Operating Officer of Twenty-First Century Fox, Inc. and Chairman of the Supervisory Board of Sky Deutschland AG

Former President and Chief Executive Officer of DIRECTV Inc where he led the operations and strategic direction of the Direct TV Group Prior to joining DIRECTV Inc he was Co-Chief Operating Officer of News Corporation (subsequently renamed Twenty-First Century Fox Inc.) and Chairman and Chief Executive Officer of the Fox Television Group

5 Tracy Clarke
Independent Non-Executive Director

Appointed to the Board 11/06/2012
Nationality British

Committee membership
Member of the Remuneration and the Bigger Picture Committees

Skills and experience
An experienced banking and human resources professional Group Head People Compliance Communications and Culture at Standard Chartered Bank Tracy has spent most of her career in banking roles both in the UK and in Hong Kong. A former Non-Executive Director of SC First Bank in Korea (2005 2007) and Non-Executive Director of Eaga plc (2007-2011), where she chaired the Remuneration Committee Tracy is a trustee of the charity WORKing for YOUth. A member of the Institute of Financial Services and a Fellow of the Chartered Institute of Personnel and Development

6 David F DeVoe
Non-Executive Director

Appointed to the Board 15/12/1994
Nationality American

Skills and experience
A finance professional with extensive experience in the media sector From July 2013 David will serve as Senior Advisor to the Board of Twenty-First Century Fox, Inc (formerly known as News Corporation) having served as CFO from 1990 to June 2013 and as a Senior Executive Vice President from 1996 to June 2013 David is a Director of Shine Limited and has previously served as a Director of Gemstar-TV Guide (2001-2008) and as a Director of DIRECTV (2003-2008)

7 Martin Gilbert
Independent Non-Executive Director

Appointed to the Board 29/11/2011
Nationality British

Committee membership
Chairman of the Audit Committee and member of the Remuneration Committee

Skills and experience
Experienced finance professional and entrepreneur and CEO of Aberdeen Asset Management PLC the fund management group that he co-founded in 1983 He is a member of the Scottish Government's Financial Services Advisory Board Martin is former Chairman of Chaucer PLC and was Non-Executive Director of Dymmark International Limited He is a Director of a number of investment trusts and is Chairman of Firstgroup plc.

8 Adine Grate
Independent Non-Executive Director

Appointed to the Board 17/07/2013
Nationality Swedish

Skills and experience
An executive with extensive finance and investment management experience Adine has operated at the top tiers of Nordic based international business for the past two decades Chairperson of NASDAQ OMX Swedish Listing Committee and Vice Chairperson of AP7 a Swedish pension and savings asset management company A Board member of Three (Scandinavia) a mobile telecommunications and broadband operator SOBI AB an international specialty healthcare company Sampo OY a leading financial and insurance institution and Swedavia AB an airport operator Formerly Executive Vice President and Managing Director of Investor AB owner of a number of Nordic based international companies

Adine is Chairperson of Base23 and Friends of a Designmuseum

9 Andy Higginson
Senior Independent Non-Executive Director

Appointed to the Board 01/09/2004
Nationality British

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

Skills and experience
A former Director of Tesco plc having spent 15 years at the company, first as Finance and Strategy Director and latterly as Chief Executive of their Retailing Services business His early career was with Unilever Guinness Laura Ashley and the Burton Group He is a member of the 100 Group of Finance Directors Andy is Chairman of Poundland Limited and N Brown plc and a Non-Executive Director of Woolworth SA and the Rugby Football Union

10 Dave Lewis
Independent Non-Executive Director

Appointed to the Board 16/11/2012
Nationality British

Committee membership
Member of the Audit, Corporate Governance & Nominations and the Bigger Picture Committees

Skills and experience
Experienced executive with strong operational expertise Dave is President, Personal Care for Unilever plc, where he also sits on the Unilever Leadership Executive. Joining Unilever as a graduate trainee in 1987 he has held a variety of senior roles in Europe South America and Asia, including President for the Americas and Chairman of Unilever UK and Ireland

11 James Murdoch
Non-Executive Director

Appointed to the Board 13/02/2003
Nationality American

Committee membership
Chairman of the Bigger Picture Committee

Skills and experience
An experienced media executive who has held a number of senior leadership roles within Twenty-First Century Fox Inc. (formerly known as News Corporation) He has been a Director of the Company since 2003 having served as CEO from November 2003 until December 2007 and Chairman from December 2007 until April 2012

James is Deputy Chief Operating Officer Chairman and CEO International at Twenty First Century Fox, Inc James is a member of the Board of Directors and Executive Committee at Twenty-First Century Fox Inc and a member of the Board of News Corporation Inc Between 2000 and 2003 he was Chairman and CEO of Star Group Limited James is a former Non-Executive Director of GlaxoSmithKline plc (2009-2012) and Sotheby's (2010-2012)

12 Matthieu Pigasse
Independent Non-Executive Director

Appointed to the Board 29/11/2011
Nationality French

Committee membership
Member of the Audit Committee

Skills and experience
Leading investment banking professional and former civilian administrator of the French Ministry of Economy and Finance In 2002 he joined investment banking firm Lazard Matthieu is Deputy CEO of Lazard in France and Vice Chairman of Lazard in Europe He is also the owner of a French publishing group Les Inrockuptibles and a co-controlling shareholder of the leading newspaper publisher Le Monde and the French edition of the Huffington Post. A Board member of Groupe Lucien Barrière Derichebourg and Relax News

13 Danny Rimer
Independent Non-Executive Director

Appointed to the Board 07/04/2008
Nationality Swiss

Committee membership
Chairman of the Remuneration Committee and member of the Corporate Governance & Nominations Committee

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

Danny serves on a number of boards including Etsy Inc., First Dibs Inc., Flipboard Inc., FON Wireless Limited Nasty Gal, Inc., RightScale Inc. and Viagogo

14 Arthur Siskind
Non-Executive Director

Appointed to the Board 19/11/1991
Nationality American

Committee membership
Member of the Corporate Governance & Nominations Committee

Skills and experience
Highly experienced legal practitioner and member of the Bar of the State of New York since 1962 Senior Advisor to the Chairman since January 2005 and Director Emeritus since October 2012 of Twenty-First Century Fox Inc (formerly known as News Corporation) Arthur served at News Corporation as an Executive Director from 1991 to October 2012, Group General Counsel from 1991 to December 2004 as a Senior Executive President from 1996 to December 2004 and as an Executive Vice President from 1991 to 1996 Adjunct Professor of Law at the Cornell Law School (2007 2009) and Adjunct Professor of Law at Georgetown University Law Center (2005 2007)

15 Andy Sukawaty
Independent Non-Executive Director

Appointed to the Board 01/06/2013
Nationality American

Committee membership
Member of the Remuneration Committee

Skills and experience
Executive Chairman of Inmarsat plc, global mobile satellite communications provider Andy has previously held a number of senior management positions in the telecommunications industry including Chief Executive and President of Sprint PCS and Chief Executive of NTL (UK) and roles at US West and AT&T Andy is Non-Executive Chairman of the Supervisory Board of Ziggo NV, a Dutch national media and communications company

Corporate governance report

CHAIRMAN'S OVERVIEW

On behalf of the Board it gives me great pleasure to introduce this year s Corporate Governance Report I would like to take this opportunity to provide you with some direct insight into the Board s views on Corporate Governance our focus during the year, the changes to our Board composition through the year and the Board s first external Board evaluation

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

Firstly I would like to address our Board composition There have been a number of changes in Board and Committee membership during the year I am pleased to welcome Dave Lewis, Chase Carey Andy Sukawaty and Adine Grate to the Board Jacques Nasser and Lord Wilson of Dinton both retired from the Board during the year Chase Carey who previously served as a Non-Executive Director from February 2003 to February 2009 replaced Thomas Mockridge following his resignation in January 2013 In order to clarify the roles of Board members within our Corporate Governance Report on pages 37 and 38 we have included a detailed description of the Directors roles and responsibilities

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

In line with corporate governance best practice during the year an external Board evaluation was undertaken by Alice Perkins of JCA Group The feedback from the evaluation confirmed that the Board and each of its Committees continue to operate effectively and that each Director continues to make an effective contribution and retains a strong commitment to their role The resulting development themes that arose from the evaluation are discussed on page 41

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

Nick Ferguson
Chairman

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The UK Corporate Governance Code (the "Code") provides the standard for corporate governance in the UK The Financial Conduct Authority requires listed companies to disclose whether they have complied with the provisions of the Code throughout the financial year The Code as revised in September 2012 will apply to the Company during the next financial year For this financial year, the Company has continued to apply the 2010 version of the Code

The Board considers that the Company has fully complied with the provisions and applied the main principles of the Code for the whole of the year ended 30 June 2013 This section of the Annual Report along with the Remuneration Committee s report on Directors remuneration on pages 48 to 56 and other governance and statutory disclosures on pages 57 to 59 provide details of how the Company has applied the main principles Further information on the Code is available on the Financial Reporting Council s website frc org uk

LEADERSHIP

Role of the Board and its Members

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

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

The Directors of the Board are selected on the criteria of proven skill and ability in their particular field of endeavour, and a diversity of outlook and experience which directly benefits the operation of the Board as the custodian of the business A full biography of each Board member is provided on pages 34 to 35

The Board agenda

The roles of the Chairman and CEO are separate and have been so since the Company's shares were admitted to listing in 1994 The roles and expectations of each Director are clearly defined and recorded within their letters of appointment or service contracts The roles and responsibilities of the Board members are explained below

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

> approval of the annual budget and any changes to it
> a major change in the nature, scope or scale of the business of the Group,
> approval of the interim and final results,
> approval of any dividend policy
> changes relating to the Groups capital structure including reductions of capital and share buy-backs,
> the entering into by the Group of a commitment or arrangement (or any series of related commitments or arrangements) which

whether budgeted or unbudgeted, involves or could reasonably involve the payment or receipt by the Group of amounts equal to or in excess of £200 million in aggregate value
> the entering into by the Group of a commitment or arrangement (or any series of related commitments or arrangements) with a related party (as defined by the Listing Rules) which involves or could reasonably involve the payment or receipt by the Group of amounts equal to or in excess of £25 million in aggregate value
> approval of resolutions to be put forward to shareholders at a general meeting
> changes to the structure size and composition of the Board following, if applicable recommendations from any committee to which the Board delegates consideration of such issues,
> appointment and removal of the Chairman of the Board and the CEO and
> determining the independence of Non-Executive Directors

The full schedule of matters reserved for decision making by the Board can be found on the Company s corporate website at sky com/corporate In the event that a matter is required to be resolved by a vote of the Board, the matter shall be decided by a majority of votes in accordance with the Company's Articles of Association The Chairman does not have a casting vote

Board Focus

During the year and in addition to its reserved and standing matters, the Board also considered and received a number of updates and presentations relating among others to

> The Company's finance and operations
> Governance and formal business
> The general market and economic outlook
> The competitive landscape
> Products and services
> Content investments

Strategy Away Days

In February 2013, members of the Board attended an offsite day dedicated to the Company's strategic priorities This format gives Directors a further opportunity to explore, analyse and challenge management on its strategic approach At this year's away day the Board were engaged in and received presentation and updates relating to

> The Company's five year financial plans
> New product developments
> Growth of existing business activities
> Opportunities and market trends

ROLES AND RESPONSIBILITIES

The Chairman

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

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

The Chief Executive Officer

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

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

Senior Independent Non-Executive Director (SID)

The role of the SID is to provide both support and a counterbalance to the position of Chairman and encompasses the following

> to provide a sounding board to the Chairman
> to serve as an alternative source of advice to the Chairman for the other Non-Executive Directors,
> together with the other Independent Non-Executive Directors, to evaluate the performance of the Chairman and agree development points required

Corporate governance report

continued

> along with the Chairman to liaise with institutional shareholders and representative bodies during the year and
> to assist shareholders in resolving concerns should alternative channels be inappropriate

Non-Executive Directors

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

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

Company Secretary

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

> to ensure good information flows within the Board and its committees between senior management and Non-Executive Directors
> to facilitate Director induction and assisting with professional development and
> to advise the Board through the Chairman of all corporate governance obligations and developments in best practice

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

During the year, Chris Taylor was appointed Company Secretary in place of David Gormley who moved to another role within Sky

Environment supportive of challenge

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

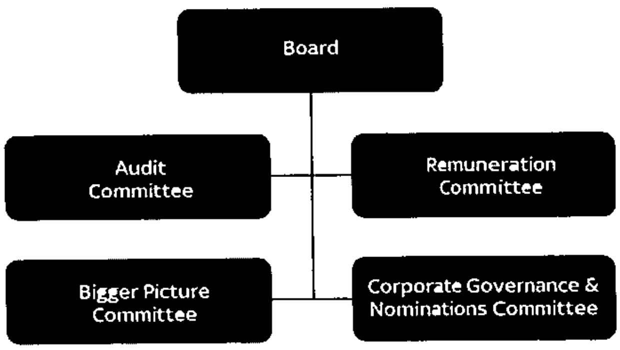
Board delegation

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

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

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

Board and Committee framework



Meetings of the Board during the year

The Board met five times during the year Attendance at Board and Committee meetings during the year is set out in the table below The table shows the number of meetings each Director and Committee member were eligible to attend

	Board	Audit	Remuneration	Corporate Governance & Nominations	Bigger Picture
Number of meetings held in year	5	6	3	4	2
Director					
Jeremy Darroch, CEO	5/5				
Andrew Griffith	5/5				
Chase Carey (i)	2/2				
Tracy Clarke (iv)(v)	5/5		3/3		2/2
David DeVoe (vii)	4/5				
Nick Ferguson (ii)(v)	5/5		3/3	4/4	
Martin Gilbert (iii)(v)	5/5	6/6	2/3		
Andy Higginson (ii)(iii)(viii)	4/5	5/6		3/4	
Dave Lewis (i)(ii)(iii)(iv)	3/3	2/2		1/1	1/1
James Murdoch (iv)	5/5				2/2
Matthieu Pigasse (iii)(ix)	3/5	3/6			
Danny Rimer (ii)(v)	5/5		3/3	3/4	
Arthur Siskind (ii)	5/5			4/4	
Andy Sukawaty (i)(v)	1/1				
Thomas Mockridge (vi)(x)	2/3				
Jacques Nasser (vi)	2/2		1/1		
Lord Wilson of Dinton (ii)(iv)(vi)	4/4			3/3	2/2

Notes

(i) Dave Lewis was appointed to the Board on 16 November 2012 Chase Carey was appointed to the Board on 30 January 2013 and Andy Sukawaty was appointed to the Board on 1 June 2013

(ii) Corporate Governance & Nominations Committee member Lord Wilson of Dinton retired as a member on 1 June 2013 and Dave Lewis became a member on 11 June 2013

(iii) Audit Committee member Andy Higginson stepped down as Chairman of the Audit Committee on 1 November 2012 Dave Lewis became a member on 30 January 2013

(iv) Bigger Picture Committee member Dave Lewis was appointed as a member on 30 January 2013 and Lord Wilson of Dinton resigned as a member on 1 June 2013

(v) Remuneration Committee member Jacques Nasser retired as a member on 1 November 2012 and Andy Sukawaty became a member on 11 June 2013

(vi) Jacques Nasser retired from the Board on 1 November 2012 Thomas Mockridge resigned from the Board on 30 January 2013 and Lord Wilson of Dinton retired from the Board on 1 June 2013

(vii) David DeVoe was unable to attend a Board meeting due to a conflicting News Corporation (subsequently renamed Twenty-First Century Fox Inc) meeting

(viii) Andy Higginson was unable to attend a Board meeting due to family commitments

(ix) Matthieu Pigasse was unable to attend Board and Committee meetings due to overseas travel on Lazard business and personal reasons

(x) Thomas Mockridge could not attend a Board meeting as he resigned from the Board that day

Corporate governance report

continued

EFFECTIVENESS

Board composition and independence

The Board currently comprises 15 Directors, made up of two Executive Directors and 13 Non-Executive Directors At least half of the Board of Directors are determined to be independent by the Board in accordance with provision B 1 2 of the Code Biographies of each of the Directors are set out on pages 34 to 35 and identify those Directors who are, in the view of the Board, independent within the meaning of the Code On appointment the Chairman met the independence criteria set out in provision B 1 1 of the Code

The Independent Non-Executive Directors bring a wide range of experience and expertise to the Group's affairs and carry significant weight in the Board s decisions The Independent Non-Executive Directors are encouraged to challenge management and help develop proposals on strategy Time is regularly put aside at Board meetings to discuss the strategic direction of the Company

Prior to appointment, and on an annual basis each Board member receives and completes a questionnaire to determine factors that may affect independence according to best practice statements contained within the Code The responses to the questionnaire assist the Board in ascertaining whether a Director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect or could appear to affect, the Director s judgement

Appointments to the Board and succession planning

The Corporate Governance & Nominations Committee keeps the Board s balance of skills knowledge, experience and the length of service of individuals under constant review In respect of succession planning and supplementing the skill set of the Board, there is an established procedure for the appointment of Directors In brief, the Committee identifies the set of skills and experience required and, with the assistance of external search agencies selects individuals to take Board positions on review of their individual merits The process adopted by the Committee around Director recruitment is discussed in the Corporate Governance & Nominations Committee s report on pages 45 and 46

Board diversity

The Board has noted the findings of the Davies Review and has published a statement of its intention to increase female representation on the Board This statement can be found on the Company's corporate website The Corporate Governance & Nominations Committee is responsible for succession planning and further information of the work of the Committee during the year can be found on pages 45 and 46

Directors' reappointment

In respect of Code provision B 7 1 all Executive and Non-Executive Directors will retire and offer themselves for reappointment at the 2013 AGM of the Company in compliance with the Code

Board and committee changes during the year

At the Company's AGM on 1 November 2012, Jacques Nasser retired from the Board and also as a member of the Remuneration Committee Following the AGM, Martin Gilbert was appointed as Chairman of the Audit Committee in place of Andy Higginson who remains a member On 16 November 2012 Dave Lewis was appointed as an Independent Non-Executive Director On 30 January 2013, Dave Lewis was appointed as a member of the Audit Committee and the Bigger Picture Committee and on 11 June 2013 he was appointed as a member of the Corporate Governance & Nominations Committee

On 30 January 2013, Thomas Mockridge resigned and Chase Carey was appointed as a Non-Executive Director On 1 June 2013, Lord Wilson of Dinton retired from the Board and as a member of the Corporate Governance & Nominations Committee and the Bigger Picture Committee On 1 June 2013 Andy Sukawaty was appointed as an Independent Non-Executive Director On 11 June 2013 Andy Sukawaty was appointed as a member of the Remuneration Committee On 17 July 2013 Adine Grate was appointed as an Independent Non-Executive Director

Time commitment

Executive Directors are not allowed to take on the chairmanship of a FTSE 100 company, but are allowed to take up one external non-executive FTSE 100 appointment and retain any payments in respect of such appointments Any external appointments for the Executive Directors are considered by the Corporate Governance & Nominations Committee All Non-Executive Directors are advised of the likely time commitments required on induction and are expected to devote sufficient time for the effective discharge of their functions The Company provides Non-Executive Directors with appropriate support and facilities for consideration of the Company's strategy and performance and a dialogue with the Chairman is strongly encouraged so that any issues regarding conflicting commitments and time pressures can be addressed appropriately

Induction & training

All new Directors receive an induction tailored to their individual requirements The induction process involves meeting with all of the Company's Executive Directors and Senior Executives This facilitates their understanding of the Group and the key drivers of the business performance During the year Directors have received presentations from a number of areas of the business including Customer Group, Sky Media, Sky Sports and Strategic Planning Group The Chairman meets with the Directors throughout the year to review and agree their individual training and developmental needs

In consultation with the Chairman and CEO the Company Secretary organises and facilitates directors' induction For example, Dave Lewis was appointed to the Board on 16 November 2012 and has undergone the initial stages of induction, which have included meetings with key executives a meeting with the Bigger Picture team and a tour of the Sky Skills Studio During the remainder of 2013, he will attend an outside broadcast and visit a customer call centre

Information provided to the Directors

The Company Secretary is responsible for ensuring good information flows within the Board and its committees, between senior management and Non-Executive Directors For each Board and Committee meeting Directors are provided with a tailored Board pack at least one week prior to the meeting To improve the delivery and security of Board papers, the Company has adopted an electronic system whereby Directors' board packs are accessible and available irrespective of geographic location Directors regularly receive additional information from the Company between Board meetings including a daily press summary and a monthly Group performance update Where a Director was unable to attend a meeting, they were provided with all the papers and information relating to that meeting and were able to discuss issues arising directly with the Chairman and CEO

Conflicts of interest

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

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

Directors & Officers' Insurance and Indemnity

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

Additionally, the Company's Articles of Association allow the Company to indemnify the Directors and deeds of indemnity have been issued to all Directors of the Company

Board Evaluation

In line with corporate governance best practice, an external Board evaluation was undertaken during the year The process was facilitated by Alice Perkins who works for the coaching division of JCA Group which is separate to the recruitment division engaged by the Corporate Governance & Nominations Committee during the year to assist in the recruitment of non-executive directors JCA Group have no other relationships with the Company

Following discussions with the Chairman Senior Independent Director CEO and the Company Secretary JCA Group prepared discussion guidelines which formed the basis for one to one interviews with all Board members and the Company Secretary The areas covered by the discussion guidelines included

> Organisation of the Board and its composition
> Committee organisation and composition
> Strategy
> Peer reviews
> Board relations with key stakeholders
> Risk compliance and financial monitoring
> Overall Board effectiveness and succession planning

The findings were presented to the Corporate Governance & Nominations Committee and the Board for discussion in October 2012 The feedback confirmed that the Board and each of its Committees continue to operate effectively and that each Director continues to make an effective contribution and demonstrates a strong commitment to the role

The Board discussed the key findings and agreed the following action points

> The Board induction process would be reviewed and strengthened,
> The composition of the Board and its Committees would be kept under review
> Board information flows would be reviewed to ensure that all Directors are kept up to date with developments in between meetings,
> The Board and Committee meeting schedule would be reviewed

The performance of each director was evaluated as part of the evaluation process based on self-analysis and input from the other directors It is the Board's intention to continue to review its performance and that of its Committees and individual directors on an annual basis In respect of the evaluation process for the 2013/14 financial year, it is likely that a mixture of external facilitation and internal facilitation will be used

ACCOUNTABILITY

Throughout this report and, as required through other periodic financial statements, the Board is committed to providing shareholders with a clear assessment of the Company's position and prospects The Audit Committee has responsibility for oversight of corporate reporting, risk management and the Company's relationship with its auditor A full description of the Audit Committee s terms of reference is included in the Audit Committee Report on pages 42 to 45

Significant risks to the business are kept under constant review and appropriate material controls are sanctioned and employed as appropriate The Company's principal risks and examples of how we mitigate those risks are detailed on pages 24 to 27

REMUNERATION

The Board believes in adopting remuneration packages that are appropriate for attracting, retaining and motivating Directors The Remuneration Committee s report on Directors' remuneration on pages 48 to 56 explains how remuneration packages and performance incentives are employed by the Company at Board level The Remuneration Committee is responsible for setting the Remuneration policy for the Board and ensures that no Director is involved in decisions affecting their own remuneration

Corporate governance report

continued

RELATIONS WITH SHAREHOLDERS

Shareholder communications

Presentations and webcasts on the development of the business are available to all shareholders on the Company's corporate website The Company also uses email alerts and actively promotes downloading of all reports enhancing speed and equality of shareholder communication The Company has taken full advantage of the provisions within the Companies Act 2006 allowing the website to be used as the primary means of communication with shareholders where they have not requested hard copy documentation The shareholder information section on pages 116 to 117 contains further details on electronic shareholder communications together with more general information of interest to shareholders which is also included on the Company's corporate website

Shareholder engagement

The Company is committed to maintaining and improving dialogue with shareholders in order to ensure that the objectives of both the Group and the shareholders are understood A programme of meetings with institutional shareholders, fund managers and analysts takes place each year The Company also makes presentations to analysts and investors around the time of the half-year and full-year results announcement conference calls are held with analysts and investors following the announcement of the first quarter and third quarter results, and presentations are made during the year to many existing or potential shareholders at investor conferences

The Annual General Meeting

The Board views the AGM as an opportunity to communicate with private investors and sets aside time at the meeting for shareholders to ask questions At the AGM the Chairman provides a brief summary of the Company's activities for the previous year to the shareholders All resolutions at the 2012 AGM were voted by way of an electronic poll This follows best practice and allows the Company to count all votes rather than just those of shareholders attending the meeting As recommended by the Code all resolutions were voted separately and the voting results, which included all votes cast for, against and those withheld, together with all proxies lodged prior to the meeting, were indicated at the meeting and the final results were released to the London Stock Exchange as soon as practicable after the meeting The announcement was also made available on the Company's corporate website As in previous years, the proxy form and the announcement of the voting results made it clear that a "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes for or against the resolution

AUDIT COMMITTEE

Chairman Martin Gilbert

Members Martin Gilbert, Andy Higginson Dave Lewis and Matthieu Pigasse

Chairman's overview

During the year, the Committee continued to focus on the financial performance of the Company internal audit risk management, compliance and financial governance In accordance with the Code, the membership of the Committee consists exclusively of Independent Non-Executive Directors

This year the Committee has received a number of presentations from the management of different business areas including technology entertainment and legal and regulatory to improve its understanding of their operations and the risks they face and how those risks are managed

The Committee has also reviewed the Group s integration of the O2 consumer broadband and fixed-line telephony business received presentations from the Chairman of the Data Governance Committee, the Director of People in relation to Health & Safety and received regular reports from the Company's internal audit function and external auditor

During the year, Andy Higginson stepped down as Chairman of the Committee and I would like to thank him for his stewardship of the Committee during his Chairmanship Andy remains a Committee member Dave Lewis joined the Committee in January 2013 bringing strong operational experience which will add to the quality and effectiveness of discussions at Committee meetings

Martin Gilbert
Committee Chairman

Attendance at Committee Meetings

The Committee, has clearly defined terms of reference as laid down by the Board which are available on the Company's website The Committee is chaired by Martin Gilbert and the other members are Andy Higginson, Dave Lewis and Matthieu Pigasse The CFO and representatives from the external auditor and the internal audit department attend meetings at the request of the Committee The CEO and other business and finance executives attend meetings from time to time The Committee Chairman reports regularly to the Board on its activities

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

Changes to the membership of the Committee during the year

Andy Higginson stepped down as Chairman of the Committee on 1 November 2012 and was replaced by Martin Gilbert and remains a member of the Committee Dave Lewis was appointed as a member of the Committee on 30 January 2013

The role of the Committee

The Chairman reports regularly to the Board on its activities Its main duties include

> making recommendations to the Board in relation to the appointment, reappointment and removal of the external auditor and discussing with the external auditor the nature scope and fees for the external auditor s work
> reviewing and making recommendations to the Board regarding the approval or any amendment to the quarterly, half year and annual financial statements of the Group
> reviewing the Group s significant accounting policies
> reviewing the Group's systems of internal control
> reviewing the Group's treasury policies,
> recommending the appointment of the Group s Director Audit Risk Management and Compliance
> reviewing the audit plan and findings of the Group's internal audit function
> monitoring and reviewing the effectiveness of the Group s internal audit function,
> approving all non-audit services provided by the Group s external auditor in accordance with the Group s policy
> monitoring the Group s whistle-blowing policy
> reviewing and monitoring compliance with the Company's business standards and codes relating to anti-bribery and corruption, competition law data protection, health and safety and other compliance programmes
> reviewing a schedule of all transactions between the Company and related parties entered into during the year and which exceed £100 000 in value and payments pursuant thereto,
> approval is required for the entering into by the Group of a commitment or arrangement (or any series of related commitments or arrangements) with a related party which involves or could reasonably involve the payment or receipt by the Group of amounts equal to or in excess of £10 million but not exceeding £25 million in aggregate value Any transaction in excess of £25 million in aggregate value must be submitted to the Committee and, if approved by the Committee, must also be submitted to the full Board for approval,
> to approve (subject where applicable to Board approval) all transactions which fall within the Listing Rule definition of related party transactions and to recommend such transactions as it approves to the Board

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

The Committee reviewed the significant areas of judgement in line with the Group s critical accounting policies as set out on pages 72 and 73 with particular focus on the following

> Retail subscription revenue the majority of the Group s revenues derive from retail subscriptions The Group applies judgement in determining the allocation of consideration from customers to different elements of the contract The Committee keeps the policies under review and confirms with management that this policy has been applied consistently
> General entertainment programming inventory the Committee reviews the policy for the recognition of content costs and seeks assurances that it has been applied appropriately The amortisation method for general entertainment programming inventory requires more judgement and the committee received a presentation from management on the policy and reviewed the different genres of programmes by comparison with viewing profiles and industry benchmarks
> Capitalisation of intangible and tangible non-current assets the Committee obtains assurances from management that the Group s project controls are operating and that the requirements of IAS 16 and IAS 38 regarding the capitalisation of expenditure have been followed

Activities during the year

The Committee met six times during the financial year Meeting agendas were organised around the Company s financial reporting cycle and items covered were as follows

Financial management and reporting

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

Internal control

> considered the effectiveness of the Group s internal controls over financial reporting,
> reviewed the internal audit department s resources and annual audit plan,
> reviewed quarterly reports from internal audit on the results of its audit work and management s implementation of its recommendations
> received quarterly updates from internal audit on the status of Senior Accounting Officer (SAO) certification work to ensure SAO compliance and
> evaluated the effectiveness of the internal audit department

External Audit Matters

> received regular reports from the external auditor
> reviewed and approved the 2012/13 audit work plan
> received regular updates on the use of non-audit services provided by the external auditor and ensured that all services and fees were approved in accordance with the Group s policy,

Corporate governance report

continued

- > reviewed the effectiveness quality of work and independence of the external auditor
- > approved the re-appointment, remuneration and engagement letter of the external auditor, and
- > private meetings with the external auditor for additional discussion and assessment of activities

Risk management

- > reviewed the Group's Risk Register
- > received risk presentations from various business areas,
- > approved the Groups Risk Management Policy and Standards, and
- > received an insurance renewal update

Other

- > reviewed quarterly security updates which include whistle-blowing
- > received a report on cyber security
- > reviewed quarterly related party transactions reports, and
- > reviewed the Groups implementation of adequate procedures in relation to the Bribery Act 2010

The Committee also received updates from the Director of Tax and Treasury, the Chairman of the Data Governance Committee and the Director of People on health and safety

The external auditors attended six meetings of the Committee during the year The Director Audit, Risk Management and Compliance has direct access to the Committee Chairman and the external audit partner

Internal control and risk management

The Directors have overall responsibility for establishing and maintaining the Groups systems of internal control and risk management and for reviewing their effectiveness These systems are designed to manage and where possible eliminate the risk of failure to achieve business objectives and to provide reasonable but not absolute, assurance against material misstatement or loss There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group in accordance with the revised guidance on internal control issued by the Financial Reporting Council in October 2005 During the period under review no significant failings or weaknesses were identified

The Committee on behalf of the Board considers the effectiveness of the operation of the Group's systems of internal control and risk management during the year and this review has been carried out for the year ended 30 June 2013 and up to the date on which the financial statements were approved This review relates to the Company and its subsidiaries and does not extend to joint ventures The Committee meets on at least a quarterly basis with the Groups Director Audit Risk Management and Compliance and the external auditors

There is a comprehensive budgeting and forecasting process, and the annual budget, which is regularly reviewed and updated is approved by the Board Performance is monitored against budget through weekly and monthly reporting cycles During the financial year under review monthly reports on performance were provided to the Board and the Group reports to shareholders each quarter

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

The results of the SAO testing are reported to the Committee on a quarterly basis

There are risk registers which identify the risks faced by the Group and these are consolidated into a Group Risk Register The registers detail the controls that manage the risks and where necessary the action plans to mitigate the risk exposure The business develops the action plans and the internal audit team monitors their implementation The Committee formally reviews the Group Risk Register twice a year and there is a rolling programme where senior executives from the business present their risk management plans The Group's principal risks and uncertainties are detailed in the Business Review on pages 24 to 27

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

Disclosure controls and procedures

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

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

Changes in internal controls

No change in the Group's internal control over financial reporting has occurred during the year ended 30 June 2013 that has materially affected, or is reasonably likely to materially affect, the Group's internal control over financial reporting

Auditor independence

For the year ended 30 June 2013, the Committee has reviewed audit independence and scope of non-audit services and independence safeguards with Deloitte LLP the Group's external auditor As part of the review the Audit Committee has received and reviewed confirmation in writing that in Deloitte LLP's professional judgement Deloitte LLP is independent within the meaning of all UK regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired

The Committee was satisfied throughout the year that the objectivity and independence of Deloitte LLP was not in any way impaired by either the nature of the non-audit related services undertaken during the year the level of non-audit fees charged or any other facts or circumstances Audit and non-audit services provided during the year were approved by the Committee An analysis of auditor remuneration is disclosed in note 5 to the consolidated financial statements

Audit and non-audit services

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

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

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

During the year the following examples were deemed to be pre-approved in accordance with the policy

> Comfort procedures in relation to 2012 bond issue
> iXBRL tagging of statutory accounts
> Assurance of certain KPIs for the Bigger Picture Review

Audit partner rotation

The external auditor is required to rotate the audit partner responsible for the engagement every five years The current lead partner started his term of office in relation to the 2010/11 financial year

Tenure of external auditor

The appointment of Deloitte LLP as the Group s external auditor (incumbents since 2002) is kept under review The Committee has approved the external auditor s remuneration and terms of engagement and is fully satisfied with the performance, objectivity quality of challenge and independence of the external auditor Having performed a review of effectiveness the Committee has recommended that a resolution to reappoint the external auditor as the Company's statutory auditors be proposed at the Company's forthcoming AGM In addition to the annual review of effectiveness undertaken when considering the recommendation to shareholders regarding the annual re-appointment of the external auditor the 2012 version of the Code now requires the Company to undertake a competitive tender for the role of external auditor on a comply or explain basis every ten years The present audit partner s permitted fifth and final year is the year ending 30 June 2015 and it is the Committee's current intention to conduct a competitive tender to select auditors for either that year or the year ending 30 June 2016

Data Governance

The Data Governance Committee (the "DG Committee") reports to the Committee The role of the DG Committee is to ensure that appropriate procedures and controls are in place to ensure that the Group processes personal data in accordance with Data Protection laws and that individuals are able to exercise their rights under such laws A set of policies are in place which outline and promote consistent standards and practices in the collection and use of personal data across the Group The policies also set out the responsibilities of employees in managing personal data and the escalation process to be followed should employees become aware of any breach of policy These policies are subject to regular review by the DG Committee

CORPORATE GOVERNANCE & NOMINATIONS COMMITTEE

Chairman Andy Higginson

Members Nick Ferguson, Andy Higginson Dave Lewis, Danny Rimer and Arthur Siskind

Chairman's overview

We have had another active year continuing our orderly programme of replacing Independent Non-Executive Directors as they retire We have secured the appointment of two new independent non-executive directors Dave Lewis and Andy Sukawaty succeed Jacques Nasser and Lord Wilson of Dinton on their retirement from the Board A third candidate, Adine Grate was appointed to the Board on 17 July 2013

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

We have used external consultants to help us with the recruitment process and members of the Committee and the Chief Executive Officer have met with a number of candidates throughout the year who met the Committee's criteria This year s Board evaluation process was undertaken by an external Company for the first time Alice Perkins of JCA Group facilitated the evaluation process which involved her meeting all Board members and the Company Secretary through a series of one to one interviews The results of the evaluation were very encouraging The evaluation found that the Board and its Committees are operating effectively and that the Directors are making an effective contribution A number of action points were agreed which are generally aimed at building on and improving existing processes

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

The Committee continues to comprise a majority of Non-Executive Directors in compliance with the Code

Andy Higginson
Committee Chairman

Corporate governance report

continued

Changes to the membership of the Committee during the year

Lord Wilson of Dinton retired as a member of the Committee on 1 June 2013 Dave Lewis was appointed as a member of the Committee on 11 June 2013

The role of the Committee

The Chairman reports regularly to the Board on its activities Its main duties include

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

Activities during the year

During the year the Committee reviewed the composition of the Board and its committees and followed a formal recruitment process to identify candidates who meet the Board s criteria During the year, Committee members and the CEO met with a number of potential candidates

The Committee used JCA Group, an external recruitment consultancy to help the Committee identify possible candidates and run the recruitment process The coaching arm of JCA Group which is a separate business to the recruitment arm performed the external Board evaluation during the year JCA Group has no other connection with the Company JCA Group were replaced by Ridgeway Partners as the Company's external recruitment advisors in October 2012

The recruitment process involved the Chairman of the Committee working closely with the external recruitment consultants to ensure that they understood the Company's requirements The external recruitment company approached potential candidates and a short list of candidates was drawn up and reviewed by the Committee An interview process was then undertaken which involved members of the Committee and the CEO meeting the candidates

The Committee recommended two candidates to the Board during the year, Dave Lewis and Andy Sukawaty A third candidate, Adine Grate was recommended to the Board during the year and appointed on 17 July 2013 Each of these candidates has a background, experience and skill set which will help strengthen the Board and improve its diversity

The Board and the Committee have noted the findings of the Davies Review and it is the Committee's intention to increase female representation on the Board as the Company continues to follow its orderly programme for replacing members of the Board as they retire

The Committee also reviewed the independence of the Non-Executive Directors and recommended to the Board that there be no changes to the independent status of the current Independent Non-Executive Directors The Non-Executive Directors who are considered by the Board to be independent are clearly identified on pages 34 to 35 The Board s criteria for determining whether a Non-Executive Director is independent are set out in the Memorandum on Corporate Governance which can be found on the Company's corporate website

The Committee's review took into consideration the fact that by the date of the Company s 2013 AGM, Andy Higginson will have served on the Board for more than nine years Provision B 1 1 of the Code states that serving more than nine years could be relevant to the determination of a Non-Executive Director s independence The Committee concluded that Andy Higginson continued to demonstrate the essential characteristics of independence expected by the Board and that there are no relationships or circumstances that are likely to affect, or could appear to affect his judgement Andy Higginson has agreed to serve as a member of the Board until the 2014 AGM, in order to maintain a degree of certainty and smooth handover of Board and Committee experience and knowledge and help to facilitate the integration of the recently appointed Independent Non-Executive Directors to the Board

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

BIGGER PICTURE COMMITTEE

Chairman James Murdoch

Members Tracy Clarke Dave Lewis and James Murdoch

During the year the Committee has continued to provide strategic leadership in relation to Sky's Bigger Picture programme

It has been a good year with strong progress made in each of our chosen areas of focus - sport, arts, environment and skills This progress is detailed on pages 17 to 21 and at sky com/biggerpicture

The Committee is pleased with the focus and scale of the work being done, and believes that it is making a significant contribution to the sustainability of the business and its reputation

I would like to welcome Dave Lewis to the Committee and thank Lord Wilson who stepped down from the Committee during the year for his valuable contribution as a member of the Committee He has served on the Committee since its inception and has made an important contribution to the growth and success of the Bigger Picture programme during that time

James Murdoch
Committee Chairman

Changes to the membership of the Committee during the year

Dave Lewis was appointed as a member of the Bigger Picture Committee on 30 January 2013 and Lord Wilson of Dinton retired as a member of the Bigger Picture Committee on 1 June 2013

The role of the Committee

The Chairman of the Bigger Picture Committee reports regularly to the Board on its activities The main duties of the Bigger Picture Committee include

> reviewing and approving the Bigger Picture strategy,
> seeking external stakeholders views on the Bigger Picture strategy and performance,
> reviewing and approving the annual reporting of the Bigger Picture activities,
> monitoring progress in achieving the Bigger Picture objectives and key performance indicators
> ensuring the resources and skills are available to implement the Bigger Picture strategy, and
> providing the Board with an overview of the social environmental and ethical impacts of the Company's activities and how they are being managed

Activities during the year

Over the year the Committee reviewed the positive progress made in raising consumer awareness and favourability through the Bigger Picture initiatives The independent quarterly mass consumer survey shows that 64% of customers and 43% of consumers are now aware of the Bigger Picture initiatives

The Committee also oversaw a number of key developments in relation to Sky's Bigger Picture initiatives They reviewed the new environment targets and accompanying commitments that Sky has set to 2020 that will ensure the business has fewer impacts and better more sustainable products year on year

They oversaw the expansion of Sky Sports Living for Sport into a third of all secondary schools in the UK, together with the launch into Ireland For the latter, a target of also reaching one third of all secondary schools by 2016 has been set

The Committee reviewed the progress of the second phase of Sky Rainforest Rescue, continuing to drive on the ground implementation in the project area in Brazil while also increasing the activity to raise awareness in the UK of rainforest deforestation in the Amazon

Having agreed the Sky Arts Ignition strategy last year, this year they oversaw the launch of projects in partnership with Tate Liverpool and the V&A along with support and mentoring of five emerging young artists

Two years ago, the Committee challenged the management team to further strengthen the Bigger Picture initiatives and extend their reach At their final meeting of the year they noted the significant progress made to increase the positive social and environmental impact of Sky on the UK and Ireland

Directors' remuneration report

Dear Shareholder

On behalf of the Board I am pleased to present our report on Directors remuneration for the year ended 30 June 2013 At Sky we are clear that our executive remuneration policy is key to the successful execution of our business plan, our growth strategy and the delivery of value to our shareholders The current remuneration framework continues to serve the Company and its shareholders well We set tough performance targets commensurate with a growth business in a highly-competitive sector Fixed pay is set low compared to market but achievement of stretching targets delivers significant but appropriate rewards for our Executive Directors through the annual bonus, the Long-Term Incentive Plan and Co-Investment Plan awards This has been an outstanding year for Sky and we believe that our remuneration policy aligns executive performance with shareholder value creation

Our Long-Term Incentive Plan is atypical, vesting every second year breaking the annual vesting cycle A consequence of this is that the value of the remuneration delivered to executive directors will spike every other year The Committee reviewed the vesting schedule and concluded that it continues to support the overall strategy of the business

When taking decisions on executive pay we take account of the prevailing facts and circumstances and the guidelines that are set for all employee remuneration across the Company In this way we manage risk and best protect Sky and its shareholders The Remuneration Committee continues to retain discretion to change remuneration either up or down to appropriately reflect Company or individual performance which we believe is in the best interests of our shareholders

In what has remained a tough consumer environment we sold more products to more customers and increased the amount they spend with us Over the year, we added organically 2 6 million new subscription products, and with the acquisition of the O2 consumer broadband and fixed-line telephony business, we will finish the year with a total base of paid-for products of 31 6 million This is more than double the level of five years ago As a result of our strong performance in communications we became the UK's second largest broadband provider, with more than 4 9 million customers achieving this milestone less than seven years after launching broadband services We ended the year with 11 2 million customers, up 547,000 on last year, making Sky the choice of well over 40% of households across Britain and Ireland

This strong operational performance combined with our continued focus on cost control and efficiency, has translated into excellent financial performance and increased returns to shareholders Total revenue increased by 7% adjusted operating profit was up by 9% to £1 330 million while adjusted basic earnings per share was 60 0 pence, an increase of 18% on last year and almost two and a half times the level of five years ago In light of this the Board has proposed a full-year dividend of 30 0 pence, an increase of 18% which represents the ninth consecutive year of growth On the strength of the Group s overall performance annual bonuses were paid out close to maximum levels

This is the year in which the Long-Term Incentive Plan ('LTIP" or 'Plan') awards made in 2010 and 2011 are due to vest, in line with our biennial vesting schedule In light of our outstanding performance, these awards vested in full Over the three year period of the plan shareholders have benefited from excellent performance revenue has increased by £1 5 billion (27%), we have added £460 million to operating profit (53%) and almost doubled EPS from just over 30 pence to 60 pence per share In addition we have returned, via dividends and share buy-backs, £2 5 billion to shareholders, whilst our share price (using the undisturbed share price of £5 40 preceding the proposed News Corporation (subsequently renamed Twenty-First Century Fox, Inc.) offer) has risen by 50% As previously stated our Plan is atypical vesting every other year as opposed to every 12 months, therefore total remuneration for this year will spike when compared to last year

The Remuneration Committee has decided to increase the base salaries of the CEO and the CFO by 2.75% and 5% respectively This is the first increase since July 2011 and for Andrew Griffith reflects an increase in responsibility for Sky's commercial businesses The base pay of the CEO still remains lower than that of his predecessor in 2007 The overall pay increase for employees is 2.75% increasing to 3 75% for those earning less than £50 000 per year Individual pay awards range from 0% to over 5% Over the last two years for employees earning less than £50,000 per year the average increase is 8%, considerably in excess of average pay increases in the UK and reflective of the significant contribution that all our employees make to the continued success of our business Our disciplined approach to the management of fixed pay and our firm belief in rewarding for performance means that the ratio of fixed to variable pay of 14% 86% for our Executive Directors compares favourably to the average of 26% 74% for our comparator group

During the next financial year the Committee will continue to review and take into account the revised remuneration reporting regulations provided by the Department of Business, Innovation and Skills We continue to refine and develop the structure of our report to provide greater clarity and transparency and welcome feedback from our shareholders on its contents

Finally, I would like to announce that I will be stepping down as Chairman of the Committee immediately after the Company's AGM in November 2013 and Tracy Clarke will be taking over as Chair

Danny Rimer
Chairman of the Remuneration Committee

1 Sky's remuneration principles, policy and structure

1 1 What are Sky's remuneration principles?

Four key principles underpin our Executive Director remuneration policy

> We reward our people fairly and competitively to attract and retain the skills we need to deliver significant growth in value
> The level of base pay is decided in the same way as for all employees, based on individual performance and experience, the size and scope of the role, taking account of total remuneration
> Short term operational performance is rewarded through the annual bonus and total remuneration is geared towards achieving challenging long-term strategic objectives and provides the opportunity to earn significant rewards for outstanding performance
> We take care to ensure that remuneration does not inadvertently encourage inappropriate risk taking

Our reward policy for Executive Directors how it supports the business strategy and the terms of operation are summarised in the table below The table reflects the policy that applied in 2012/13 and what is envisaged for 2013/14 Section 1 3 looks at each element in more detail and includes our approach to recruitment policy and contracts of employment

Execution of policy is guided by our responsibility to shareholders the performance of the Company and ensures fair and appropriate reward to Executive Directors and all employees

1 2 What is our remuneration policy?

Element	How it supports Sky's strategy	Annual opportunity	Structure Operation and Other details
Basic salary	Attracts and retains Executive Directors	> CEO – £935 000 > CFO – £573 500	> Reviewed annually effective from 1 July > Set relatively low versus our peer group (the 20 companies in the FTSE 100 above and below Sky by market capitalisation) > No increases on 1 July 2012 > On 1 July 2013 increases of 2 75% and 5% respectively for the CEO and CFO
Annual bonus	Drives and rewards the delivery of annual performance goals	> 200% of salary (CEO) > 150% of salary (CFO)	> Performance measures and weightings are reviewed each year Currently three equally weighted measures. > Operating profit growth – measures operational efficiency > Operating cash flow – shows ability to generate and manage cash > Product net growth – critical measure to execute our strategy > Stretching performance targets are set annually Maximum bonus is paid only if targets are achieved or exceeded Bonus payouts for performance below the targets set are at the discretion of the Committee
Co-Investment Plan	Encourages personal investment and shareholder alignment rewards long-term focus and performance achievement	Executive directors may invest up to half of their earned annual cash bonus in shares The maximum annual opportunity is > 150% of basic salary (CEO) > 112 5% of basic salary (CFO)	> Awards granted during the year Executive Directors may invest up to half of their earned annual cash bonus in shares The investment shares are matched on a gross basis and vest based on three year compound annual EPS growth as follows > Below RPI +3% – no matching shares vest > RPI +3% – shares vest 1 for 1 > RPI +6% – the shares vest in full > For awards in 2013/14 the only change to the above is that RPI +6% has been changed to RPI +5%
Long Term Incentive Plan	Rewards longer-term value creation and aligns Executive Director interests with those of shareholders	> 600 000 shares (CEO) > 320 000 shares (CFO)	For awards vesting in 2013 > 100% subject to three-year operational targets of EPS Operating cash flow and Revenue growth For awards in 2013/14 > 70% of the award is based on achievement of operational targets (equally weighted on EPS operating cash flow and revenue growth) > 30% of the award is based on TSR relative to the FTSE 100 > Awards are based on number of shares this avoids the "flow through" effect of salary increases when awards are determined as a percentage of salary > Further details of the vesting structure are on pages 51 and 53
Pension and other benefits	Attracts and retains Executive Directors	> CEO receives a cash supplement in lieu of pension > CFO receives a cash supplement in excess of Annual Allowance	> Benefits are broadly in line with those for all employees. > Defined contribution pension with cash supplement for amounts in excess of the Annual Allowance and cash in lieu of employer contributions where Lifetime Allowance is reached > Income protection for all members of up to two-thirds of salary > Insured death in service of up to one-third of salary which can be taken entirely as a pension or 50% lump sum and 50% pension, or entirely as a lump sum subject to the lifetime allowance > Healthcare, 4x base salary life cover use of a company car and 30 days holiday

Notes

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

(ii) The performance standards for the Co-Investment Plan and the Long-Term Incentive Plan are set in the light of the business plan for each year and the longer-term strategy

(iii) The tight link between pay and performance coupled with the Remuneration Committee practice of exercising its judgement when determining whether payouts are justified under Sky's incentives plans creates an in-built "malus" provision the Committee retains the discretion to withhold or vary downwards the vesting of shares based on its review of performance

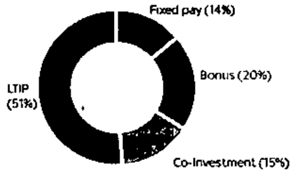
Directors' remuneration report

continued

We operate a policy which delivers upper quartile pay for superior performance and significantly lower pay if performance is below our stretching targets Our disciplined approach to the management of fixed pay and our firm belief in rewarding for performance means that the ratio of fixed to variable pay of 14% 86% for our Executive Directors compares favourably to the average of 26% 74% for our comparator group of the 20 companies in the FTSE 100 above and below Sky by market capitalisation The variable components of the package – annual bonus the Co-Investment Plan and the Long-Term Incentive Plan – only deliver significant payouts when the Executive Directors have achieved stretching financial and strategic goals Participation in the Co-Investment Plan is optional, encourages personal long-term investment and shareholder alignment and rewards long-term focus and performance achievement

The chart below shows the relative importance of the elements of total remuneration for the Executive Directors in a year where goals are exceeded and the variable plans payout in full

MAXIMUM REMUNERATION AVERAGE OF EXECUTIVE DIRECTORS



1 3 How is the remuneration package structured?

The policy table on page 49 sets out the key elements of our executive remuneration structure of fixed pay annual and deferred pay, long term incentives and pensions and other benefits These are described in further detail below

Basic salary

Basic salaries for the Executive Directors are reviewed annually on 1 July in line with all employees When reviewing salaries the Committee takes into account the overall employee salary review budget the range of salary increases based on performance, market comparisons, the performance and experience of the individual, behaviours, the size and scope of the role and the value of total remuneration

Annual bonus plan

The annual bonus drives the achievement of annual financial and strategic business goals The plan, which is the same for senior executives is based on three equally-weighted measures which are key performance indicators for our business

> adjusted operating profit
> adjusted operating cash flow
> net product growth

The annual bonus plan encourages Executive Directors to focus on achieving demanding performance standards that are aligned to our growth strategy The maximum bonus may be payable if these standards are achieved or exceeded

The Committee can use its discretion to vary the bonus payment to each Executive Director up or down based on its assessment of factors which it considers to be of material importance in determining the final outcome – both those which the Committee considers to be in the control of the Executive Directors and those which are outside of their influence The Committee makes its assessment of performance in the context of a number of circumstances for example

> The general economic environment and the impact on consumer spending power
> Sky's performance relative to its competitors
> The competitive landscape including entry and exit of competitors
> Significant over or under performance of one or more of the three key metrics
> Personal performance of the Executive Directors

The Committee also considers Sky's underlying performance

The maximum bonus opportunities for 2013/14 are unchanged at 200% and 150% of basic salary for the CEO and CFO respectively An explanation of the performance outturn for 2012/13 against the measures and the resulting payouts under the annual bonus is shown on pages 52 and 53

Co-Investment Plan

The Co-Investment Plan (CIP) offers Executive Directors and invited senior executives the opportunity to invest up to half their annual bonus in the Company's shares and earn performance-related matching shares in return for their investment This plan is central to our pay policy in that it encourages personal long term investment and shareholder alignment and rewards long-term focus and performance achievement Participation is voluntary but encouraged Fixed pay is relatively low and executives can contribute to the CIP to maximise their pay opportunity

The maximum award of matching shares is 1 5 times the gross equivalent of the investment Matching shares vest at one times once a threshold performance of RPI plus 3% is achieved and thereafter on a straight line basis up to a maximum of 1 5 times at RPI plus 5% (2013 scheme) or 6% (2012 scheme) We expect 2013 awards to be granted in August 2013 Matching shares vest after three years only if three-year EPS growth exceeds the minimum levels of average annual growth

The table below sets out performance thresholds under the 2012 scheme

EPS growth performance (annual average growth over three-year term)		Match awarded (number of matching shares awarded per deferred share*)
Less than	RPI +3%	0 0
	RPI +3%	1 0
	RPI +4%	1 17
	RPI +5%	1 33
	RPI +6%	1 5
More than	RPI +6%	1 5
Straight-line interpolation between points		

* i e on an equivalent gross basis

Executive Long-Term Incentive Plan ("LTIP")
We operate an LTIP for our Executive Directors and other senior executives to reward long-term focus and performance achievement, which in turn drives the growth strategy of the business, delivering long-term value creation for shareholders

The key features of the Plan are as follows

> Awards of shares are made annually at the discretion of the Remuneration Committee
> The grants are awarded as a number of shares rather than as a percentage of salary or monetary value in order to provide greater alignment with shareholders The value of an Executive s award is therefore linked to the share price and avoids the perverse effect of a fall in the share price resulting in an increase in the number of shares under award It also avoids the compounding effect on LTIP awards as a result of increases in basic salaries
> The Committee reviews the number of shares to be granted to the Executive Directors annually and retains discretion to vary the number awarded The number of shares granted annually has remained unchanged over the past five years, with the exception of 2011 when additional awards were made due to the potential News Corporation (subsequently renamed Twenty-First Century Fox, Inc) bid
> The LTIP operates over a three-year performance cycle Unlike other companies which grant the full award at the start of year one, we make the award in two tranches, one at the beginning of the cycle and one in the second year Awards are made annually but there is a two year interval between vesting dates rather than the 12 months that is typical of the UK market The LTIP awards for the performance period July 2010 to June 2013 vest in July 2013 The next vesting, for the performance period July 2012 to June 2015 will be in July 2015 In plans with annual vesting, realised awards year-on-year are broadly similar Our approach breaks the annual vesting cycle and leads to significant variation in realised pay with zero vesting in one year followed by a large vesting the following year
> To ensure an outcome that is fair to both shareholders and executives, the Committee has discretion to determine how shares should be treated in the event of change of control

Performance measures for 2012/13 awards
The Committee regularly reviews the measures under the LTIP to ensure they align to the strategic objectives of the business The performance measures for the 2012 and 2013 awards, which may vest in 2015, are as follows

Operational targets – 70% of the award
There are three equally weighted operational performance measures each of which is a key indicator of Sky's continued success

> EPS growth measures our "bottom line" performance
> Operating cash flow measures our ability to generate and manage cash
> Revenue growth key to our growth strategy

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

> For EPS two points are awarded for growth of RPI +3% per year, with the maximum ten points awarded for RPI +5% per year or more
> For operating cash flow and revenue growth, one point is awarded for 75% achievement of "target" on a sliding scale up to ten points for 105% or more
> One point equates to 10% of the award vesting, with maximum vesting for 21 points or more, vesting on a straight-line basis between these points

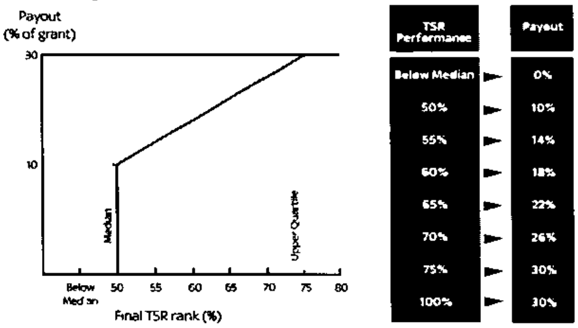
Performance measures for the period July 2012 to June 2015 are shown in further detail in the table below

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

The top end of the EPS growth range was set for awards in 2012 and 2013 at RPI +5% p a This is equivalent to growth in earnings of 26% over three years if RPI is 3% a year This level of growth in earnings was set at a level which exceeded consensus research analysts' estimates

Relative TSR performance – 30% of the award
Relative TSR was reintroduced as a measure for the 2012 and 2013 awards having been excluded in the awards made in 2010 and 2011 which vest in July 2013, due to the impact on our share price of the possible bid from News Corporation (subsequently renamed Twenty-First Century Fox, Inc) The Company's TSR performance is measured relative to the TSR of the constituents of the FTSE 100 If the Company s TSR performance is below median the TSR element of the award lapses in full For median performance 10% of an award may vest, with the full 30% vesting for upper quartile performance Vesting is on a straight-line basis, between these points as shown below

TSR vesting schedule



TSR calculations are conducted independently by Towers Watson appointed as advisors to the Committee in 2013

Directors' remuneration report

continued

Pension and other benefits
We operate a defined contribution plan for all eligible employees the BSkyB Pension Plan ("Pension Plan") The Company has no legacy defined benefit plans With effect from 1 July 2013 all eligible employees are automatically enrolled into the Pension Plan

Individuals whose pension contributions exceed the Annual Allowance or the Lifetime Allowance for pension tax relief are paid a cash supplement Jeremy Darroch became a deferred member of the Pension Plan on 1 July 2012 on reaching the Lifetime Allowance He was paid a cash supplement during the year of £158 564 in lieu of pension contributions Andrew Griffith received a cash supplement of £36 986 in lieu of pension contributions in excess of the Annual Allowance

The Pension Plan has income protection of up to two-thirds salary, and insured death in service of up to one-third salary which can be taken entirely as a pension, or 50% lump sum and 50% pension or entirely as a lump sum, subject to the lifetime allowance The Pension Plan also has Life Assurance cover up to two times for employees who are auto-enrolled, increasing to four times for members who joined prior to 1 July 2013 and for auto enrolled members who choose to increase their contributions All employees are eligible to receive private medical insurance In addition the Executive Directors have the use of a company car

1 4 What other share schemes do we operate?
Management Long-Term Incentive Plan ("MLTIP")
The Company also operates a MLTIP for selected employees excluding the Executive Directors and senior executives who participate in the LTIP Awards under this scheme are made at the discretion of the CEO within the parameters agreed with the Remuneration Committee The MLTIP mirrors the LTIP in design in order to ensure alignment between participants to both schemes

Executive Share Option Schemes ("Executive Schemes")
Sky has in place Approved and Unapproved Executive Share Option Schemes under HMRC guidelines No options have been granted since 2004

Sharesave Scheme
The Sharesave Scheme is open to UK and Irish employees Options are normally exercisable after either three or five years from the date of grant The price at which options are offered is not less than 80% of the middle-market price on the dealing day immediately preceding the date of invitation It is the policy of the Company to make an invitation to employees to participate in the scheme following the announcement of the year-end results Currently approximately 6,100 employees participate in these schemes

1 5 What are the key elements of the Executive Directors' service contracts?
Executive Directors' service contracts contain a maximum notice period of one year and a non-compete provision of one year In the event of termination, Executive Directors may be entitled to up to one year's salary and benefits which may be payable in lieu of notice by the Company No bonus is payable in respect of any notice period not worked by the individual In the event of termination "for cause" salary and benefits would be payable only up to the date of termination

Jeremy Darroch's initial service contract on appointment as CFO commenced on 16 August 2004 The contract was revised on 7 December 2007 when he became CEO Andrew Griffith's service contract was revised on 7 April 2008 when he was appointed CFO

Copies of the Executive Directors service contracts are available for inspection during normal business hours at the Company's registered office on any business day and will be available at the place where the AGM is being held from 15 minutes prior to and during the meeting

1 6 Do the Executive Directors have any external appointments?
Outside appointments for Executive Directors are considered by the Corporate Governance & Nominations Committee to ensure they would not cause a conflict of interest and, if not, are then approved by the Chairman on behalf of the Board It is the Company's policy that remuneration earned from such appointments may be retained by the individual During the year ended 30 June 2013 Jeremy Darroch served as a Non-Executive Director and Chairman of the Audit Committee of Marks and Spencer Group plc and earned £85 000 Jeremy stepped down from both appointments on 19 June 2013

2 Performance and awards

As shown on pages 4 and 5, we delivered excellent financial results in a tough consumer environment Customers continue to recognise the great value we offer by choosing Sky over other providers and buying more services from us

Against this background we set out below the outcomes for the key elements of our remuneration programmes

2 1 Basic Salary
The Remuneration Committee has decided to increase the base salaries of the CEO by 2 75% and the CFO by 5% reflecting his increase in responsibilities This is their first increase since July 2011 and is in the context of an overall pay increase for employees of 2 75% increasing to 3 75% for those earning less than £50 000 per year Over the last two years for employees earning less than £50,000 per year the typical increase is 8%, considerably in excess of average pay increases in the UK and reflective of the significant contribution that our employees make to the continued success of our business

2 2 Annual bonus payouts
Based on our relative performance against the key bonus measures and competition, the Committee has decided to award near maximum bonus payouts of 195% of base salary for the CEO and 145% for the CFO which compared to maximum possible payouts of 200% and 150% respectively

2 3 Co-Investment Plan
The Remuneration Committee has agreed that the matching shares under the CIP will vest in full on 31 August 2013 The average adjusted EPS growth rate of 23% per year over the three-year period exceeds the threshold for maximum vesting Details of the performance targets which apply are included in the policy section on pages 50 and 51

Outstanding awards under this plan are shown in the table on page 56

2 4 LTIP - vesting and awards

Performance measures for 2010/11 awards

The awards made in 2010 and 2011 are dependent on operational performance measures TSR was not included as a performance measure given the Company's share price at the time of grant being materially impacted by the possible News Corporation (subsequently renamed Twenty-First Century Fox, Inc) bid Points have been awarded for performance on three operational measures as follows

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

Actual points awarded		
Average EPS growth	**Operating Cash Flow**	**Revenue growth**
Actual points awarded	Actual points awarded	Actual points awarded
10 00	10 00	8 07

Over the three-year period of the plan, shareholders have benefited from excellent performance almost doubling of EPS from just over 30 pence to 60 pence per share returning via dividends and share buy-backs £2 5 billion to shareholders and the share price rising by 50% We are delighted that Company performance has been exceptional creating significant shareholder value and resulting in 100% vesting for LTIP awards made in 2010 and 2011, based on the number of points awarded exceeding 21 The vesting date is 29 July 2013

2013 Award

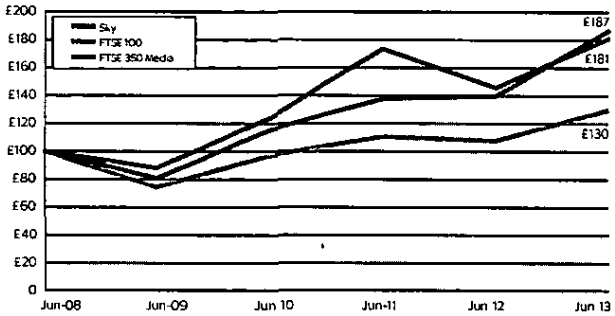
The Committee has agreed that Jeremy Darroch will be granted an award of 600,000 shares and Andrew Griffith will be granted an award of 320,000 shares on 26 July 2013 This is the Year 2 award of the 2012-2015 Plan and is the same number of shares as was awarded at the start of the performance period in 2012 These awards will normally vest on 26 July 2015 subject to the performance measures being achieved

The operational performance conditions of the LTIP award in 2013 will remain the same as for those made in 2011 and 2012 These are EPS growth operating cash flow and revenue growth and 70% of the award will vest dependent on these measures (see page 51) The EPS growth target for the maximum award of 10 points has been set at RPI+5% p a (equivalent to 26% growth in earnings over three years if RPI is 3% p a) This level of growth in earnings was set at a level which exceeds consensus research analysts' estimates

In addition 30% of the award will vest dependent on relative TSR performance please refer to page 51

2 5 TSR performance

The graph below shows the Company's TSR for the six years to 30 June 2013, measured as the value of a £100 holding in ordinary shares at the start of the period The performance is shown relative to the FTSE 100 and FTSE Media 350 indices which represent the broad market indices within which Sky shares are traded



Source DataStream Return Index

2 6 Non-Executive Directors' fees

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

Fee category (per annum)	2013/14 £	2012/13 £
Chairman	462 375	450 000
Deputy Chairman[1]	30 000	30 000
Basic fee	60 000	58 000
Committee Chairman	25 000	25 000
Committee Members	10 000	10 000
Senior Independent Director	40 000	40 000

(1) The role of Deputy Chairman is not required to be filled at the present time

The Committee has agreed to increase the Chairman s fee by 2 75% and Non-Executive Directors' (NED") basic fees to £60 000 per annum effective 1 July 2013 Each NED is engaged by the Company for an initial term of three years In accordance with the UK Corporate Governance Code all Directors submit themselves for annual reappointment

2 7 Chairman and Non-Executive Director letters of appointment

	Date of letter of appointment
Nick Ferguson	3 April 2012
Chase Carey	30 January 2013
Tracy Clarke	11 June 2012
David DeVoe	15 December 2004
Martin Gilbert	29 November 2011
Adine Grate	17 July 2013
Andy Higginson	1 September 2004
Dave Lewis	16 November 2012
James Murdoch	7 December 2007
Matthieu Pigasse	29 November 2011
Danny Rimer	7 April 2008
Arthur Siskind	19 November 1991
Andy Sukawaty	1 June 2013

2 8 Share ownership

Sky has no formal share ownership requirement but, as the Directors' interests table shows in section 2 9 the Executive Directors have both increased their level of share holdings in the Company during the year The holdings for the CEO and CFO are 354 575 and 114 452 respectively the equivalent on 30 June 2013 of holdings with a value of three (3x) times salary and one and a half (1 5) times salary respectively based on the close share price of £7 92 on 28 June 2013

Directors' remuneration report

continued

2 9 Directors' interests

The Company encourages the Non-Executive Directors to build up a holding in the Company's shares and has introduced a facility whereby Non-Executive Directors can elect to receive a portion of their fees in BSkyB shares Shares are purchased on a monthly basis in the market The Directors who are deemed to be affiliated with Twenty-First Century Fox, Inc (formerly known as News Corporation) James Murdoch Chase Carey David DeVoe and Arthur Siskind are not permitted to participate in this facility This is due to the fact that under Rule 9 of the Takeover Code they would be deemed to be acting in concert with Twenty-First Century Fox Inc if they were to purchase shares in the Company and this would place Twenty-First Century Fox Inc under an obligation to make a mandatory offer for all of the issued share capital of the Company

The interests of all serving Directors in the ordinary share capital of the Company during the year were

	At 30 June 2013	At 30 June 2012
Jeremy Darroch	354 575	296,157
Andrew Griffith	114 452	87533
Chase Carey[i]	-	-
Tracy Clarke	895	-
David DeVoe	-	-
Nick Ferguson	22128	14 966
Martin Gilbert	2 281	971
Andy Higginson	6 571	5 639
Dave Lewis[i]	705	-
James Murdoch	-	-
Matthieu Pigasse	2 477	1,058
Danny Rimer	21 122	15 836
Arthur Siskind	-	-
Andy Sukawaty[i]	95	-

(i) Dave Lewis, Chase Carey and Andy Sukawaty were appointed respectively to the Board on 16 November 2012 30 January 2013 and 1 June 2013

Adine Grate was appointed on 17 July 2013 and does not have any beneficial holdings in the Company No other Director held any interest in the share capital including options, of the Company or of any subsidiary of the Company during the year All interests at the date shown are beneficial and there have been no changes between 1 July and 25 July 2013

During the year ended 30 June 2013 the share price traded within the range of 677 5 and 899 5 pence per share The middle-market closing price on the last trading day of the financial year was 792 pence

3 Governance

3 1 Membership of the Remuneration Committee

During the year ended 30 June 2013 the Committee chaired by Danny Rimer met three times Tracy Clarke, Nick Ferguson Martin Gilbert and Andy Sukawaty are members of the Committee On 1 November 2012, Jacques Nasser retired from the Board and as a member of the Committee Andy Sukawaty joined the Committee on 11 June 2013 Attendance during the year is show on page 39

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

3 2 Remuneration Committee activities

Date	Key issues discussed
July 2012	Performance outturn for 2012/13 bonus & LTIP criteria 2010-13 Performance measures and target setting for LTIP 2012-15 Performance measures and target setting for 2012/13 bonus Employee salary review Pay review – CEO & CFO CEO s pension arrangements Review of draft Report on Directors remuneration
December 2012	Remuneration consultancy tender process
May 2013	Benchmarking analysis - Executive Directors total package review vs the market Governance and executive pay Update on the BIS requirements and the general executive pay environment Performance update - Bonus, LTIP and Co-Investment Plan
June 2013	Directors' Remuneration Report Performance update Discussion on pay principles

3 3 Advisors to the Remuneration Committee

Following a competitive tender process in December 2012, the Committee appointed Towers Watson in place of New Bridge Street as independent advisors to the Committee Towers Watson provide a range of other services to Sky relating to pensions Prior to that, New Bridge Street (an Aon Hewitt company) acted as independent advisors to the Committee, and did not have any other role within the Company The Remuneration Committee is satisfied that the advice it receives on Executive Director remuneration is independent and objective Terms of reference have been agreed and will be monitored throughout the appointment Towers Watson subscribes to the Remuneration Consultants Group s Code of Conduct in relation to executive remuneration The Code clarifies the scope and conduct of the role of remuneration consultants when advising UK listed companies

The Chief Executive and the Director for People provide information and advice and attend meetings as required The Committee is also supported by the Company Secretary Finance and Human Resources functions No individuals are involved in the decision in relation to their own remuneration

3 4 Interaction with shareholders

We are committed to engaging with our shareholders and every year Sky holds a meeting to talk about remuneration issues with the Company's major shareholders and institutional investor groups We find that this enables us to take shareholders views fully into account when making decisions about remuneration At last year's AGM 88 6% of shareholders voted in favour of our remuneration report

During the year, the Chairman of the Remuneration Committee also held meetings with institutional shareholders and analysts to discuss views on the Company's remuneration policy

4 Directors' remuneration in 2012/13 (audited)

The emoluments of the Directors for the year ended 30 June 2013 are shown below

	Salary and fees £	Bonus scheme £	Benefits £	Total emoluments before pension 2013 £	Employer's pensions(ii) £	Total emoluments including pension 2013 £	Total emoluments including pension 2012 £
Executive							
Jeremy Darroch	935 000	1 823 250	175 686(i)	2 933 936	-	2 933,936	2 983 119
Andrew Griffith	573,500	831 575	53 090(i)	1 458 165	33 333	1 491 498	1 521 050
Non-Executive							
Nick Ferguson	450 000	-	-	450,000	-	450 000	230 657
Chase Carey (iii)	24 612	-	-	24 612	-	24 612	-
Tracy Clarke	78 000	-	-	78 000	-	78 000	4 413
David DeVoe	58 000	-	-	58 000	-	58 000	56,500
Dave Lewis (vi)	45,312	-	-	45 312	-	45 312	-
Martin Gilbert	94 666	-	-	94 666	-	94 666	35 611
Andy Higginson	151 333	-	-	151 333	-	151 333	113 179
James Murdoch	93 000	-	-	93,000	-	93,000	89 417
Matthieu Pigasse	68 000	-	-	68 000	-	68 000	35 060
Danny Rimer	103,833	-	-	103 833	-	103 833	73 167
Arthur Siskind	68 000	-	-	68 000	-	68 000	66 500
Andy Sukawaty (vii)	5 666	-	-	5 666	-	5 666	-
Thomas Mockridge (iii)	51 333	-	-	51 333	-	51 333	63 808
Jacques Nasser (iv)	22,956	-	-	22 956	-	22 956	67 108
Lord Wilson of Dinton (v)	73 583	-	-	73 583	-	73 583	97 333
Total emoluments	2 896 794	2 654 825	228 776	5 780 395	33 333	5,813 728	5 583 913(viii)

This table is audited

Notes

(i) Jeremy Darroch was given a pension cash supplement of £158 564 and Andrew Griffith was given a pension cash supplement of £36 986 during the financial year See page 52 for further information During the year Jeremy Darroch received a taxable benefit of £16 018 regarding use of a company car

(ii) Jeremy Darroch is a deferred member of the Pension Plan having reached his lifetime allowance effective 1 July 2012

(iii) Thomas Mockridge resigned from the Board and as Deputy Chairman on 30 January 2013 Chase Carey was appointed on 30 January 2013

(iv) Jacques Nasser retired from the Board and its Committees on 1 November 2012

(v) Lord Wilson of Dinton retired from the Board and its Committees on 1 June 2013

(vi) Dave Lewis was appointed to the Board on 16 November 2012 and became a member of the Audit Committee and the Bigger Picture Committee on 30 January 2013 and a member of the Corporate Governance & Nominations Committee on 11 June 2013

(vii) Andy Sukawaty was appointed to the Board on 1 June 2013 and became a member of the Remuneration Committee on 11 June 2013

(viii) Total emoluments for the year ended 30 June 2012 includes former Directors of the Company who no longer serve as Directors

Share schemes

Long-Term Incentive Plan

	Number of shares under award										
Name of Director	At 30 June 2012	Granted during the year	Exercised during the year	Lapsed during the year	At 30 June 2013	Market price at date of award	Exercise price	Market price at date of exercise	Date of Award	Date from which exercisable	Expiry date
Jeremy Darroch	200 000	-	200 000	-	-	£4 543	nil	£7 06112(a)	31 07 08	31 07 11	31 07 16
	380 000	-	380 000	-	-	£5 465	nil	£7 06112(a)	26 08 09	31 07 11	31 07 16
	600 000	-	-	-	600 000	£7 110	n/a	n/a	29 07 10	29 07 13	29 07 18
	900 000	-	-	-	900 000	£7 120	n/a	n/a	29 07 11	29 07 13	29 07 18
	-	600 000	-	-	600 000	£7 065	n/a	n/a	26 07 12	26 07 15	26 07 20
Andrew Griffith	320 000	-	-	-	320 000	£7 110	n/a	n/a	29 07 10	29 07 13	29 07 18
	455 000	-	-	-	455,000	£7 120	n/a	n/a	29 07 11	29 07 13	29 07 18
	-	320 000	-	-	320 000	£7 065	n/a	n/a	26 07 12	26 07 15	26 07 20

This table is audited

Notes

(a) 570 000 LTIP awards were exercised and subsequently disposed of at £7 06112 per share with the remaining 10 000 sold at £7 075 pence per share

(i) The aggregate value received by the Directors on exercise of the LTIP before tax was £4,095 588 (2012 £8 692 338).

(ii) See performance conditions for LTIP on pages 51 and 53

(iii) Following the vesting of awards participants continuing to be employed by the Company have five years to exercise their award

Directors' remuneration report

continued

Co-Investment Plan

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

Name of Director	At 30 June 2012	Number of shares under award: Granted during the year	Exercised during the year	At 30 June 2013	Market price at date of award	Exercise price	Market price at date of exercise	Date of Award	Date from which exercisable	Expiry date
Jeremy Darroch	204,425	-	-	204 425	£5 405	n/a	n/a	27 08 09	27 08 12	27 08 17
	183 935[i]	-	-	183 935	£7 075	n/a	n/a	31 08 10	31 08 13	31 08 18
	207729[ii]	-	-	207,729	£6 460	n/a	n/a	30 08 11	30 08 14	30 08 19
	-	184 149[iii]	-	184,149	£7 640	n/a	n/a	28 08 12	28 08 15	28 08 20
Andrew Griffith	75 506	-	75 506[a]	-	£5 405	n/a	£7 6161	27 08 09	27 08 12	27 08 17
	69 672[iv]	-	-	69 672	£7 075	n/a	n/a	31 08 10	31 08 13	31 08 18
	95 793[v]	-	-	95 793	£6 460	n/a	n/a	30 08 11	30 08 14	30 08 19
	-	84,713[vi]	-	84 713	£7 640	n/a	n/a	28 08 12	28 08 15	28 08 20

This table is audited

Notes

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

(a) The aggregate value received by Andrew Griffith on exercise of the CIP before tax was £575 061 (2012 nil)
(i) Jeremy Darroch holds 59 662 shares as a match under this award
(ii) Jeremy Darroch holds 66 011 shares as a match under this award
(iii) Jeremy Darroch holds 58 518 shares as a match under this award
(iv) Andrew Griffith holds 22 601 shares as a match under this award
(v) Andrew Griffith holds 30 440 shares as a match under this award
(vi) Andrew Griffith holds 26 919 shares as a match under this award

Executive Share Options

The Company has not made any Executive Share Option awards since 2004

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

Name of Director	At 30 June 2012	Number of shares under award: Granted during the year	Exercised during the year	At 30 June 2013	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
Andrew Griffith	44 184	-	-	44 184	£6 62	n/a	01 09 07	01 09 13
	19 819[i]	-	-	19 819	£5 03	n/a	06 08 08	06 08 14

This table is audited

Note

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

Sharesave Scheme Options

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

Name of Director	At 30 June 2012	Number of shares under award: Granted during the year	Exercised during the year	At 30 June 2013	Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
Jeremy Darroch	3 591	-	-	3,591	£4 33	n/a	01 02 15	01 08 15
Andrew Griffith	1 771	-	-	1 771	£5 08	n/a	01 02 15	01 08 15

This table is audited

Options under the Company s Sharesave Scheme are not subject to performance conditions as they are made under a UK HMRC tax approved scheme

Other governance and statutory disclosures

BUSINESS REVIEW

The Companies Act 2006 requires the Company to set out in the Directors Report a fair review of the business of the Group during the financial year ended 30 June 2013 including an analysis of the position of the Group at the end of the financial year, and a description of the principal risks and uncertainties facing the Group (known as a "Business Review") The purpose of the Business Review is to enable shareholders to assess how the Directors have performed their duty under section 172 of the Companies Act 2006

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

> Chief Executive Officer's statement on pages 4 to 6
> Our performance KPIs on pages 8 to 9
> Review of our business on pages 10 to 23
> Financial and operating review on pages 28 to 33
> Principal risks and uncertainties that face the Group are described on pages 24 to 27
> Significant trends that could have a material effect on the performance of the Group are described on page 32
> People matters and community and environmental matters are described on pages 17 to 23

Pages 4 to 59 inclusive (together with the sections incorporated by reference) consist of a Directors Report that has been drawn up and presented in accordance with and in reliance upon applicable English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by the law

Principal activities

British Sky Broadcasting Group plc is the holding company of the British Sky Broadcasting group of companies The Group's principal activities are detailed in the Review of our business on pages 10 to 23

Results and dividends

The profit for the year ended 30 June 2013 was £979 million (2012 £906 million) The Directors recommend a final dividend for the year ended 30 June 2013 of 19 0 pence per ordinary share which together with the interim dividend of 11 0 pence paid to shareholders on 23 April 2013 will make a total dividend for the year of 30 0 pence (2012 25 40 pence) Subject to approval at the AGM the final dividend will be paid on 6 December 2013 to shareholders appearing on the register at the close of business on 15 November 2013

Share capital

The Company's issued ordinary share capital at 30 June 2013 comprised one class of ordinary shares All of the issued ordinary shares are fully paid and rank equally in all respects Further details of the Company's share capital is disclosed in notes 23 and 24 to the consolidated financial statements

Interests in voting rights

Information provided to the Company pursuant to the UK Listing Authority's Disclosure and Transparency Rules (DTRs) is published on a Regulatory Information Service and on the Company's website As at 30 June 2013 the Company had been notified under DTR5 of the following significant holdings of voting rights in its shares

Identity of person or group	Amount owned	Percent of class
21st Century Fox UK Nominees Limited(i)	623 817 229	39 14
BlackRock, Inc(ii)	88 682 765	5 06
The Capital Group Companies, Inc(ii)	63 236 287	3 967

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

There have been no changes to the above significant holdings between 1 July and 25 July 2013

At 25 July 2013, 39 14% of the Company's shares are held by 21st Century Fox UK Nominees Limited, a company incorporated under the laws of England and Wales which is an indirect wholly owned subsidiary of Twenty-First Century Fox, Inc. As a result of Rupert Murdoch s ability to appoint certain members of the Board of Directors of the corporate trustee of the Murdoch Family Trust, which beneficially owns less than 1% of Twenty-First Century Fox Inc 's Class A Common Stock and 38 4% of its Class B Common Stock Rupert Murdoch may be deemed to be a beneficial owner of the shares beneficially owned by the Murdoch Family Trust Rupert Murdoch however disclaims any beneficial ownership of those shares Also, Rupert Murdoch reports beneficially ownership of less than 1% of Twenty-First Century Fox, Inc s Class A Common Stock and an additional 1 0% of its Class B Common Stock Thus Rupert Murdoch may be deemed to beneficially own in the aggregate less than 1% of Twenty-First Century Fox Inc s Class A Common Stock and 39 74% of its Class B Common Stock, although, as stated above, Rupert Murdoch disclaims beneficial ownership of the shares of Twenty-First Century Fox, Inc beneficially owned by the Murdoch Family Trust

The Employee Share Ownership Plan ("ESOP") was established to satisfy awards made to participants of the Company's employee share plans The trustees of the ESOP have waived the right to dividends payable in respect of the shares held by it except to the extent of 0 0001% of the dividend payable on each share At 30 June 2013 the ESOP had an interest in 20 527 423 of the Company's ordinary shares The Trustees, who are independent of the Company have full discretion on how they vote the ordinary shares held by the ESOP

Voting rights

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

Other governance and statutory disclosures

continued

A shareholder entitled to attend and vote at a general meeting may appoint one or more proxies to attend and vote instead of him If a member appoints more than one proxy he must specify the number of shares which each proxy is entitled to exercise rights over A proxy need not be a shareholder of the Company Holders of the Company's ordinary shares do not have cumulative voting rights A voting agreement dated 21 September 2005 was entered into between the Company BSkyB Holdco Inc, Twenty-First Century Fox, Inc and 21st Century Fox UK Nominees Limited which became unconditional on 4 November 2005 and caps 21st Century Fox UK Nominees Limited's voting rights at any general meeting at 37.19% The provisions of the voting agreement cease to apply on the first to occur of a number of circumstances which include the date on which a general offer is made by an independent person (as defined in the voting agreement) for the ordinary share capital of the Company

Restrictions on transfer of securities

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

Variation of rights

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

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

The Directors were granted authority at the 2012 AGM to allot relevant securities up to a nominal amount of £273,000 000 This authority will apply until the conclusion of this year s AGM An ordinary resolution to provide the Directors with an authority to allot relevant securities up to a nominal amount of £262,000 000 will be proposed at the 2013 AGM A special resolution will also be proposed to renew the Directors' powers to make non-pre-emptive issues for cash in connection with rights issues and otherwise up to a nominal amount of £39 000,000

On 29 November 2011 at the Company's AGM, the Company was granted the authority to return £750 million of capital to shareholders via a share buy-back programme This authority was subject to an agreement between the Company and Twenty-First Century Fox Inc (and others) dated 28 July 2011 whereby following any market purchases of shares by the Company Twenty-First Century Fox Inc would sell to the Company sufficient shares to maintain its percentage shareholding at the same level as applied prior to those market purchases The price payable to Twenty-First Century Fox, Inc would be the price payable by the Company in respect of the relevant market purchases (the '2011 Share Buy-back Agreement')

At the Company's AGM on 1 November 2012, the Company was granted the authority to return a further £500 million of capital to shareholders via a share buy-back programme This authority was subject to an agreement between Twenty-First Century Fox, Inc (and others) dated 28 July 2012 on substantially the same terms as the 2011 Share Buy-back Agreement

On 25 July 2013 the Board agreed to seek the necessary approvals to return a further £500 million of capital to shareholders via a share buy-back programme Shareholder approvals will be sought at the Company's AGM on 22 November 2013 The Company has entered into an agreement with Twenty-First Century Fox Inc (and others) under substantially the same terms as the 2011 Share Buy-back Agreement The agreement is conditional on the appropriate shareholder approvals being granted The effect of the agreement is to provide that there will be no change in Twenty-First Century Fox, Inc's economic or voting interests in the Company as a result of the share buy-back programme

Articles of association

The Company's Articles of Association may only be amended by special resolution at a general meeting of shareholders

Board of Directors

The names and biographical details of the Directors of the Company are given on pages 34 and 35

The Directors interests in the ordinary shares and options of the Company are disclosed within the report on Directors remuneration on pages 54 to 56

Appointment and retirement of Directors

The Directors may from time to time appoint one or more Directors Any such Director shall hold office only until the next AGM and shall then be eligible for reappointment by the Company's shareholders At the Company's 2013 AGM all current Executive and Non-Executive Directors will retire and offer themselves for reappointment in compliance with the Code

Alternate Directors

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

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

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

Significant agreements

Details of any significant agreements that take effect, alter or terminate on a change of control of the Company are disclosed in the review of the business on pages 15 to 17

Payment policy

The policy of the Group is to agree terms of payment with suppliers prior to entering into a contractual relationship In the absence of a specific agreement, it is the policy of the Group to pay suppliers in accordance with its standard payment terms of 45 days The Group had below 45 days' purchases outstanding at 30 June 2013 (2012 below 45 days) based on the total amount invoiced by non-programme trade suppliers during the year ended 30 June 2013 Programme creditors include significant balances which are not yet contractually due In respect of amounts both contractually due and invoiced, the outstanding number of days' purchases is below 45 days (2012 below 45 days)

Financial instruments

Details of the Group s use of financial instruments, together with information on our financial risk management objectives and policies, and our exposure to financial risks can be found in note 22 to the consolidated financial statements

Charitable contributions through our community and environmental activities

During the financial year, we contributed £5 788,768 to charities for the purpose of supporting our initiatives that focus on being a responsible business and on improving lives through sport championing creativity and opening up the arts helping young people build skills for a changing world, and taking action to protect the environment

These contributions were made to our key charity partners including the National Film and Television School, the Media Trust Youth Sport Trust British Cycling, WWF, Global Action Plan, Ideas Tap Tate Liverpool and the Victoria and Albert Museum We also supported a number of charities through our employee matched fundraising and payroll giving activities and our volunteering initiatives

An overview of our approach to building a sustainable business, which we call seeing the bigger picture is provided on pages 17 to 21 of the Directors' report – Business review In addition we have published our Seeing the bigger picture Summary Report 2013 which outlines our vision initiatives and performance over the year In this we quantify our total investment for community benefit using the London Benchmarking Group model In-depth information can also be found at sky com/biggerpicture

Political contributions

Political contributions of the Group in the UK during 2013 amounted to nil (2012 nil)

Going concern

The Group s business activities, together with the factors likely to affect its future development performance and position are set out in the review of our business on pages 10 to 23 The financial position of the Group its cash flows and liquidity position are described in the financial and operating review on pages 28 to 33 In addition, notes 20 to 22 to the consolidated financial statements include details of the Group's treasury activities long term funding arrangements, financial instruments and hedging activities and exposure to financial risk

As set out above the Group has sufficient financial resources which, together with internally generated cash flows, will continue to provide sufficient sources of liquidity to fund its current operations, including its contractual and commercial commitments as set out on pages 99 to 100, its approved capital expenditure and any proposed dividends, and the Group is well placed to manage its business risks successfully despite the current economic outlook

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

Directors' responsibilities

The responsibilities of the Directors are set out on page 60

Disclosure of information to auditors

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

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

Auditors

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

Annual General Meeting

The notice convening the AGM to be held at the Edinburgh International Conference Centre, The Exchange Edinburgh EH3 8EE on 22 November 2013 at 11 00am, is available for download from the Company's corporate website at sky com/corporate

By order of the Board

Chris Taylor
Company Secretary
25 July 2013

Statement of Directors' responsibilities

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

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

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

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

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

Directors' responsibility statement

The Directors confirm that to the best of their knowledge

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

By order of the Board

Jeremy Darroch Chief Executive Officer 25 July 2013	Andrew Griffith Chief Financial Officer 25 July 2013

Independent Auditor's report

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

Opinion

In our opinion the consolidated and Parent Company financial statements of British Sky Broadcasting Group plc

> give a true and fair view of the state of the Group's and Parent Company's affairs as at 30 June 2013 and of its profit for the year then ended
> have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and
> have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

The financial statements comprise the consolidated and company income statements, the consolidated and company statements of comprehensive income, the consolidated and company balance sheets the consolidated and company cash flow statements the consolidated and company statements of changes in equity and the related notes 1 to 32 The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union

Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the consolidated financial statements, the Group in addition to 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 consolidated financial statements comply with IFRSs as issued by the IASB

Basis for opinions

We have audited the consolidated and Parent Company financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK and Ireland) Our responsibilities under those standards are further described below under Respective Responsibilities of Directors and Auditor In performing our audit as required by those standards, we complied with the Financial Reporting Council s Ethical Standards for Auditors including those requiring us to be independent and objective

Going Concern

As required by the Listing Rules we have reviewed the directors statement on page 59 that the business is a going concern We confirm that

> we have not identified material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern which we believe would need to be disclosed in accordance with IFRSs as adopted by the European Union and
> we have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate

However because not all future events or conditions can be predicted this statement is not a guarantee as to the Company's ability to continue as a going concern

Auditor commentary

Our assessment of risks significant to our audit
The assessed risks of material misstatement described below are those that had the greatest effect on the audit strategy the allocation of resources in the audit, and directing the efforts of the engagement team

> revenue recognition including the timing and amount of retail subscription revenues recognised in the year,
> the selection and application of appropriate policies for the expensing of general entertainment programming inventory, and
> the appropriateness of the recognition of intangible and tangible non-current assets from capital expenditure projects

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole and not to express an opinion on individual accounts or disclosures Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters

Our assessment of materiality
We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements on our audit and on the financial statements For the purposes of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person relying on the financial statements, would be changed or influenced We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole

When establishing our overall audit strategy we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole In line with generally accepted practice we calculated planning materiality for the Group as approximately 4% of adjusted pre-tax profit and 5% of equity, which equated to £50 million We use adjusted pre-tax profit to exclude the effect of volatility from our determination

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2 5 million as well as differences below that threshold that in our view warranted reporting on qualitative grounds

The scope of our audit
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group s 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

Independent Auditor's report

continued

financial statements In addition we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on or materially inconsistent with the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Our Group audit scope focused on the Group s UK and Ireland operations which were subject to a full scope audit for the year ended 30 June 2013 and represent all principal operations of the Group and account for substantially all of the Group's total assets revenue and operating profit

The way in which we scoped our response to the significant risks identified above was as follows

> Retail subscription revenue – our procedures included understanding and testing the controls in respect of the Group s billing and customer relationship management systems and testing the revenue recognised in the period
> General Entertainment programming inventory – we evaluated the amortisation method for general entertainment programming inventory, taking into account the differing genres of programmes, viewing profiles and industry benchmarks
> Capitalisation of intangible and tangible non-current assets – we tested the controls in respect of the capitalisation of assets considered all material and a sample of other capital expenditure projects and evaluated management s assessment as to whether the project spend met the recognition criteria set out in IAS 16 and IAS 38 and considered whether any indicators of impairment were present

The Audit Committee s consideration of these judgements is set out on page 43

Opinions on matters 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 and
> the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006

Other matters on which we are required to report by exception

Adequacy of explanations received
Under the Companies Act 2006 we are required to report to you if in our opinion, we have not received all the information and explanations we require for our audit We have nothing to report in respect of this matter

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors remuneration have not been made or the part of the Directors Remuneration Report to be audited is not in agreement with the accounting records and returns Under the Listing Rules we are required to review certain elements of the Directors Remuneration Report We have nothing to report arising from these matters or our review

Corporate Governance Statement
Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code We have nothing to report arising from our review

Our duty to read other information in the Annual Report
Under the ISAs (UK and Ireland), we are required to report to you if in our opinion information in the annual report is

> materially inconsistent with the information in the audited financial statements, or
> apparently materially incorrect based on, or materially inconsistent with our knowledge of the Group acquired in the course of performing our audit or
> otherwise misleading

In particular we have considered whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed

We confirm that we have not identified any such inconsistencies or misleading statements

Respective responsibilities of directors and auditor

Responsibility of directors for the financial statements
As explained more fully in the Directors statement of responsibility set out on page 60 the directors are responsible for the adequacy of the accounting records, the preparation of the financial statements from those records and for being satisfied that the financial statements give a true and fair view

Auditor's responsibility
Our responsibility is to audit and express an opinion on the financial statements and to provide other reports and communications arising from our audit in accordance with applicable law and International Standards on Auditing (UK and Ireland)

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 either required to state to them in an auditor's report and/or those further matters we have expressly agreed to report to them on in our engagement letter 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

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

25 July 2013

Consolidated financial statements

Consolidated income statement
for the year ended 30 June 2013

	Notes	2013 £m	2012 £m
Revenue	2	7235	6,791
Operating expense	3	(5,944)	(5 548)
Operating profit		1291	1,243
Share of results of joint ventures and associates	13	46	39
Investment income	4	28	18
Finance costs	4	(108)	(111)
Profit before tax	5	1257	1189
Taxation	7	(278)	(283)
Profit for the year attributable to equity shareholders of the parent company		979	906
Earnings per share from profit for the year (in pence)			
Basic	8	60 7p	52 6p
Diluted	8	59 7p	52 2p

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

All results relate to continuing operations

Consolidated statement of comprehensive income
for the year ended 30 June 2013

	2013 £m	2012 £m
Profit for the year attributable to equity shareholders of the parent company	979	906
Other comprehensive income		
Amounts recognised directly in equity		
Exchange differences on translation of foreign operations	–	2
Gain on revaluation of available-for-sale investments	186	8
(Loss) gain on cash flow hedges	(27)	99
Tax on cash flow hedges	7	(23)
	166	86
Amounts reclassified and reported in the income statement		
Loss on cash flow hedges	(48)	(29)
Tax on cash flow hedges	11	7
	(37)	(22)
Other comprehensive income for the year (net of tax)	129	64
Total comprehensive income for the year attributable to equity shareholders of the parent company	1,108	970

All results relate to continuing operations

Consolidated financial statements

continued

Consolidated balance sheet
as at 30 June 2013

	Notes	2013 £m	2012 £m
Non-current assets			
Goodwill	10	999	956
Intangible assets	11	718	523
Property plant and equipment	12	1 041	948
Investments in joint ventures and associates	13	164	156
Available-for-sale investments	14	422	228
Deferred tax assets	15	38	16
Programme distribution rights	16	17	-
Trade and other receivables	17	17	17
Derivative financial assets	21	360	390
		3 776	3 234
Current assets			
Inventories	16	548	456
Trade and other receivables	17	591	621
Short-term deposits	21	595	710
Cash and cash equivalents	21	815	464
Derivative financial assets	21	20	24
		2 569	2 275
Total assets		**6 345**	**5 509**
Current liabilities			
Borrowings	20	11	8
Trade and other payables	18	2 023	1 855
Current tax liabilities		176	189
Provisions	19	94	43
Derivative financial liabilities	21	13	3
		2 317	2 098
Non-current liabilities			
Borrowings	20	2 909	2 398
Trade and other payables	18	63	27
Provisions	19	14	12
Derivative financial liabilities	21	29	29
Deferred tax liabilities	15	1	1
		3 016	2 467
Total liabilities		**5,333**	**4 565**
Share capital	23	797	837
Share premium	24	1 437	1 437
Reserves	24	(1 222)	(1 330)
Total equity attributable to equity shareholders of the parent company	24	**1 012**	**944**
Total liabilities and shareholders' equity		**6,345**	**5 509**

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

These consolidated financial statements of British Sky Broadcasting Group plc, registered number 02247735, have been approved and authorised for issue by the Board of Directors on 25 July 2013 and were signed on its behalf by

Jeremy Darroch
Chief Executive Officer

Andrew Griffith
Chief Financial Officer

Consolidated cash flow statement
for the year ended 30 June 2013

	Notes	2013 £m	2012 £m
Cash flows from operating activities			
Cash generated from operations	25	1 877	1,737
Interest received		29	17
Taxation paid		(300)	(254)
Net cash from operating activities		**1,606**	**1 500**
Cash flows from investing activities			
Dividends received from joint ventures and associates		43	39
Net funding to joint ventures and associates		(4)	(6)
Proceeds on disposal of an investment		4	-
Purchase of property plant and equipment		(203)	(228)
Purchase of intangible assets		(251)	(229)
Purchase of subsidiaries (net of cash and cash equivalents purchased)		(197)	(15)
Purchase of available-for-sale investments		(9)	(5)
Decrease (increase) in short-term deposits		115	(280)
Net cash used in investing activities		**(502)**	**(724)**
Cash flows from financing activities			
Net proceeds from borrowings		498	-
Repayment of obligations under finance leases		(1)	(1)
Proceeds from disposal of shares in Employee Share Ownership Plan ("ESOP")		15	10
Purchase of own shares for ESOP		(69)	(161)
Purchase of own shares for cancellation		(627)	(546)
Interest paid		(128)	(125)
Dividends paid to shareholders		(441)	(410)
Net cash used in financing activities		**(753)**	**(1 233)**
Net increase (decrease) in cash and cash equivalents		**351**	**(457)**
Cash and cash equivalents at the beginning of the year		464	921
Cash and cash equivalents at the end of the year		**815**	**464**

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

Consolidated financial statements

continued

Consolidated statement of changes in equity
for the year ended 30 June 2013

	Share capital £m	Share premium £m	ESOP reserve £m	Hedging reserve £m	Available-for-sale reserve £m	Other reserves £m	Retained earnings £m	Total shareholders equity £m
At 1 July 2011	**876**	**1,437**	**(107)**	**14**	**157**	**358**	**(1 700)**	**1,035**
Profit for the year	-	-	-	-	-	-	906	906
Exchange differences on translation of foreign operations	-	-	-	-	-	2	-	2
Revaluation of available-for-sale investments	-	-	-	-	8	-	-	8
Recognition and transfer of cash flow hedges	-	-	-	70	-	-	-	70
Tax on items taken directly to equity	-	-	-	(16)	-	-	-	(16)
Total comprehensive income for the year	**-**	**-**	**-**	**54**	**8**	**2**	**906**	**970**
Share-based payment	-	-	(5)	-	-	-	(80)	(85)
Tax on items taken directly to equity	-	-	-	-	-	-	(10)	(10)
Share buy-back programme (see note 24)								
- Purchase of own shares for cancellation	(39)	-	-	-	-	39	(546)	(546)
- Financial liability for close period purchases	-	-	-	-	-	-	(10)	(10)
Dividends	-	-	-	-	-	-	(410)	(410)
At 30 June 2012	**837**	**1 437**	**(112)**	**68**	**165**	**399**	**(1,850)**	**944**
Profit for the year	-	-	-	-	-	-	979	979
Revaluation of available-for-sale investments	-	-	-	-	186	-	-	186
Recognition and transfer of cash flow hedges	-	-	-	(75)	-	-	-	(75)
Tax on items taken directly to equity	-	-	-	18	-	-	-	18
Total comprehensive income for the year	**-**	**-**	**-**	**(57)**	**186**	**-**	**979**	**1,108**
Share-based payment	-	-	(35)	-	-	-	61	26
Tax on items taken directly to equity	-	-	-	-	-	-	8	8
Share buy-back programme (see note 24)								
- Purchase of own shares for cancellation	(40)	-	-	-	-	40	(617)	(617)
- Financial liability for close period purchases	-	-	-	-	-	-	(16)	(16)
Dividends	-	-	-	-	-	-	(441)	(441)
At 30 June 2013	**797**	**1 437**	**(147)**	**11**	**351**	**439**	**(1 876)**	**1,012**

For a description of the nature and purpose of each equity reserve, see note 24

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

Notes to the consolidated financial statements

1 ACCOUNTING POLICIES

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

a) Statement of compliance

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

b) Basis of preparation

The consolidated financial statements have been prepared on a going concern basis (as set out in the Directors Report) and on an historical cost basis, except for the remeasurement to fair value of financial instruments as described in the accounting policies below The Group has adopted the new accounting pronouncements which became effective this year none of which had any significant impact on the Group s results or financial position

The Group maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year In fiscal year 2013, this date was 30 June 2013, this being a 52 week year (fiscal year 2012 1 July 2012, 52 week year) For convenience purposes the Group continues to date its consolidated financial statements as at 30 June and to refer to the accounting period as a 'year' for reporting purposes The Group has classified assets and liabilities as current when they are expected to be realised in, or intended for sale or consumption in the normal operating cycle of the Group

c) Basis of consolidation

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

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

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

d) Goodwill

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

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

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

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

i Intangible assets
Research expenditure is recognised in operating expense in the income statement as the expenditure is incurred Development expenditure (relating to the application of research knowledge to plan or design new or substantially improved products for sale or use within the business) is recognised as an intangible asset from the point at which it is probable that the Group has the intention and ability to generate future economic benefits from the development expenditure, that the development is technically feasible and that the subsequent expenditure can be measured reliably Any other development expenditure is recognised in operating expense as incurred

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

Amortisation of an intangible asset begins when the asset is available for use, and is charged to the income statement through operating

Notes to the consolidated financial statements

continued

1. ACCOUNTING POLICIES *continued*

expense on a straight-line basis over the intangible asset s estimated useful life principally being a period between 1 and 25 years unless the asset life is judged to be indefinite If the useful life is indefinite or the asset is not yet available for use, no amortisation is charged and an impairment test is carried out at least annually Other intangible assets are tested for impairment in line with accounting policy i below

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

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

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

> Freehold buildings	25 to 40 years
> Equipment, furniture and fixtures	3 to 20 years
> Assets under finance leases and leasehold improvements	Lesser of lease term and the useful economic life of the asset

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

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

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

f) Derivative financial instruments and hedging activities

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

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

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

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

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

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

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

Prospective effectiveness is assessed quarterly through a comparison of the principal terms of the hedging instrument and the underlying hedged item, including the likelihood of default by the derivative counterparty The retrospective effectiveness of the Group s fair value hedges is calculated quarterly using the cumulative dollar-offset approach with movements in the fair value of the hedged item being compared to movements in the fair value of the hedging instrument

The Group uses a range of 80% to 125% for hedge effectiveness and any relationship which has effectiveness outside this range is deemed to be ineffective and hedge accounting is suspended

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

g) Inventories

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

Such programming rights are included as inventories when the legally enforceable licence period commences and all of the following conditions have been met (a) the cost of each programme is known or reasonably determinable (b) the programme material has been accepted by the Group in accordance with the conditions of the rights and (c) the programme is available for its first showing Prior to being included in inventories, the programming rights are classified as television programme rights not yet available for transmission and not recorded as inventories on the Group's balance sheet and are instead disclosed as contractual commitments (see note 26) Payments made upon receipt of commissioned and acquired programming but in advance of the legal right to broadcast the programmes are treated as prepayments

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

- Sports – 100% of the cost is recognised in the income statement on the first broadcast or where the rights are for multiple seasons or competitions such rights are principally recognised on a straight-line basis across the seasons or competitions
- News – 100% of the cost is recognised in the income statement on first broadcast
- Movies – The cost is recognised in the income statement on a straight-line basis over the period of broadcast rights
- General entertainment – The cost is recognised in the income statement based on the expected value of each planned broadcast

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

ii Programme distribution rights
Programme distribution rights are valued at the lower of cost and NRV net of the accumulated expense charged to the income statement to date

The cost of the programme distribution rights is recognised in the operating expense line of the income statement on an ultimate revenue forecast basis, and is subject to regular impairment review

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

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

h) Financial assets and liabilities

Financial assets and liabilities are initially recognised at fair value plus any directly attributable transaction costs At each balance sheet date, the Group assesses whether there is any objective evidence that any financial asset is impaired Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the financial asset or liability Financial assets are derecognised from the balance sheet when the Group s contractual rights to the cash flows expire or the Group transfers substantially all the risks and rewards of the financial asset Financial liabilities are derecognised from the Group s balance sheet when the obligation specified in the contract is discharged, cancelled or expires

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

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

Available-for-sale investments are included within non-current assets unless the carrying value is expected to be recovered principally through sale rather than continuing use in which case they are included within current assets On disposal, the difference between the carrying amount and the sum of the consideration received and

Notes to the consolidated financial statements

continued

1 ACCOUNTING POLICIES *continued*

any cumulative gain or loss that had previously been recognised directly in reserves is recognised in the income statement

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

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

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

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

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

i) Impairment

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

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

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

j) Provisions

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

k) ESOP reserve

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

l) Revenue recognition

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

> Retail subscription revenue, including subscriptions for TV services, Sky Broadband and Sky Talk services, is recognised as the goods or services are provided, net of any discount given Pay-per-view revenue is recognised when the event or movie is viewed
> Wholesale revenue is recognised as the services are provided to cable and other retailers and is based on the number of subscribers taking the Sky channels as reported to the Group by the cable and other retailers, and the applicable rate card or contract
> Advertising sales revenue is recognised when the advertising is broadcast Revenue generated from airtime sales where Sky acts as an agent on behalf of third parties is recognised on a net commission basis
> Installation hardware and service revenue is recognised in the income statement when the goods and services are activated
> Other revenue principally includes income from Sky Bet technical platform services third party set-top box sales, public access WiFi services and programme distribution fees With the exception of

Sky Bet revenue other revenue is recognised net of any discount given, when the relevant goods or service are provided Sky Bet revenue is recognised in accordance with IAS 39 and represents income in the period for betting and gaming activities defined as amounts staked by customers less winnings paid out

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

m) Employee benefits

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

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

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

The Group issues equity-settled 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 Groups estimate of the number of awards which will be forfeited, either due to employees leaving the Group prior to vesting or due to non-market based performance conditions not being met Where an award has market-based performance conditions the fair value of the award is adjusted for the probability of achieving these via the option pricing model The total amount recognised in the income statement as an expense is adjusted to reflect the actual number of awards that vest, except where forfeiture is due to the failure to meet market-based performance measures In the event of a cancellation whether by the Group or by a participating employee, the compensation expense that would have been recognised over the remainder of the vesting period is recognised immediately in profit or loss

n) Leases

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

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

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

Lease payments are apportioned between finance charges and reductions of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability

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

o) Taxation, including deferred taxation

The Groups liability for current tax is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date

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

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

p) Distributions to equity shareholders

Dividends are recognised in the retained earnings reserve in the year in which they are declared

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

Notes to the consolidated financial statements

continued

1. ACCOUNTING POLICIES *continued*

q) Earnings per share

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

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

r) Foreign currency translation

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

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

s) Reportable segments

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

t) Accounting Standards, interpretations and amendments to existing standards that are not yet effective

The Group has not yet adopted certain new standards, amendments and interpretations to existing standards which have been published but are only effective for our accounting periods beginning on or after 1 July 2013 or later periods These new pronouncements are listed below

- IFRS 10 'Consolidated Financial Statements" (effective 1 January 2013)
- IFRS 11 "Joint Arrangements" (effective 1 January 2013)
- IFRS 12 "Disclosure of Interests in Other Entities" (effective 1 January 2013)
- IFRS 13 "Fair Value Measurement" (effective 1 January 2013)
- Amendments to IAS 19 "Employee Benefits" (effective 1 January 2013)
- Amendments to IAS 27 "Separate Financial Statements" (effective 1 January 2013)
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" (effective 1 January 2013)
- Amendments to IFRS 7 'Financial Instruments Disclosures – Offsetting Financial Assets and Financial Liabilities" (effective 1 January 2013)
- Amendments to IFRS 10 IFRS 11 and IFRS 12 "Consolidated Financial Statements Joint Arrangements and Disclosure of Interests in Other Entities Transition Guidance" (effective 1 January 2013)
- Amendments to IAS 36 Impairment of Assets" (effective 1 January 2014)
- Amendments to IAS 32 'Financial Instruments Presentation – Offsetting Financial Assets and Financial Liabilities" (effective 1 January 2014)
- Amendments to IAS 39 "Financial Instruments Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting" (effective 1 January 2014)
- IFRS 9 "Financial Instruments" (effective 1 January 2015)

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

u) Critical accounting policies and the use of judgement

Certain accounting policies are considered to be critical to the Group An accounting policy is considered to be critical if in the Directors judgement, its selection or application materially affects the Group s financial position or results Below is a summary of the Group s critical accounting policies and details of the key areas of judgement that are exercised in their application

i Revenue (see note 2)
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 When the Group sells a set-top box installation or service and a subscription in one bundled transaction the total consideration from the arrangement is allocated to each element based on its relative fair value The fair value of each individual element is determined using vendor specific or third party evidence The amount of revenue the Group recognises for delivered elements is limited to the cash received

ii Taxation, including deferred taxation (see notes 7 and 15)
The Group's tax charge is the sum of the total current and deferred tax charges The calculation of the Group s total tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate through a formal legal process

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

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

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 it is probable that there will be suitable future taxable profits against which any deferred tax assets can be utilised

iii Goodwill (see note 10)
Judgement is required in determining the fair value of identifiable assets, liabilities and contingent assets and liabilities assumed in a business combination and the fair value of the consideration payable Calculating the fair values involves the use of significant estimates and assumptions including expectations about future cash flows, discount rates and the lives of assets following purchase

Judgement is also required in identifying the cash generating units to which the goodwill is associated for the purposes of goodwill impairment testing Identification of cash generating units involves an assessment of whether assets or groups of assets generate cash flows that are largely independent of other assets or groups of assets Goodwill is then allocated to each identified cash generating unit that is expected to benefit from the synergies of the business combinations from which goodwill has arisen

iv Intangible assets and property, plant and equipment (see notes 11 and 12)
The assessment of the useful economic lives of these assets requires judgement Depreciation and amortisation is charged to the income statement based on the useful economic life selected This assessment requires estimation of the period over which the Group will benefit from the assets

Determining whether the carrying amount of these assets has any indication of impairment also requires 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 Group In particular internally generated intangible assets must be assessed during the development phase to identify whether the Group has the ability and intention to complete the development successfully

v Programming inventory for broadcast (see note 16)
The key area of accounting for programming inventory for broadcast that requires judgement is the assessment of the appropriate profile over which to amortise general entertainment programming. This assessment requires the Group to form an expectation of the number of times a programme will be broadcast and the relative value associated with each broadcast In order to perform this assessment the Group considers the following factors

> The period over which the programme is expected to be shown on the Group s channels This is usually based on a combination of the actual period specified in the contract for the programme rights and the initial expectation of when repeat broadcasts will be scheduled
> The alternative programming available to the Group for scheduling within this period This consideration provides the most appropriate information in order to estimate how frequently individual programmes will be shown during the period in which the Group holds their broadcast rights
> The potential benefits associated with scheduling programming Certain high-profile or high-quality programming titles have additional value to the Group, as they attract new TV customers and encourage retention of existing TV customers As such, these programmes are able to retain more value throughout their broadcast runs than would be indicated when considering the expected viewing numbers alone
> Expectations as to the number of viewers a programme is likely to achieve for each individual broadcast over the contractual broadcast period The number of viewers per broadcast directly influences advertising revenue for channels although this consideration is partly influenced by the Group s assessment of the potential impact of the publicly available information on its competitors scheduling intentions against planned broadcasts

Notes to the consolidated financial statements

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2 REVENUE

	2013 £m	2012 £m
Retail subscription	5 951	5 593
Wholesale subscription	396	351
Advertising	440	440
Installation hardware and service	87	98
Other	361	309
	7,235	6,791

Revenue arises from goods and services provided to the UK with the exception of £461 million (2012 £418 million) which arises from services provided to other countries

3. OPERATING EXPENSE

	2013 £m	2012 £m
Programming	2 487	2 298
Direct networks	686	676
Marketing	1 117	1,064
Subscriber management and supply chain	673	621
Transmission technology and fixed networks	405	395
Administration	576	494
	5,944	5 548

Included within operating expenses for the year ended 30 June 2013 are

- Credit of £32 million relating to a credit note received following an Ofcom determination This credit has been recognised within direct networks
- Credit of £33 million relating to the final settlement of disputes with a former manufacturer of set-top boxes net of associated costs and including an impairment of £6 million in relation to associated intangible assets This credit has been recognised within subscriber management and supply chain
  Costs of £31 million relating to the one off upgrade of set-top boxes The costs have been recognised within subscriber management and supply chain
  Costs of £25 million relating to a programme to offer wireless connectors to selected Sky Movies customers The costs have been recognised within subscriber management and supply chain
  Costs of £15 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business including amortisation of £4 million in relation to associated intangible assets The costs have been recognised as follows
  - £3 million within direct networks
  - £2 million within subscriber management and supply chain
  - £3 million within transmission, technology and fixed networks
  - £7 million within administration

  Costs of £33 million relating to a corporate efficiency programme including an impairment of £6 million in relation to associated intangible and tangible assets The costs have been recognised as follows
  - £29 million within administration
  - £1 million within programming
  - £1 million within marketing
  - £1 million within subscriber management and supply chain
  - £1 million within transmission, technology and fixed networks

Included within operating expenses for the year ended 30 June 2012 are

- Credit of £31 million relating to the News Corporation (subsequently renamed Twenty-First Century Fox Inc) proposal in 2011 consisting of costs incurred offset by the receipt of the break fee This credit has been recognised within administration
  Costs of £11 million which comprise severance payments relating to approximately 35 senior roles as part of a restructuring initiative to improve operating efficiency The costs have been recognised within administration

4. INVESTMENT INCOME AND FINANCE COSTS

	2013 £m	2012 £m
Investment income		
Interest on cash cash equivalents and short-term deposits	9	14
Dividends received from available-for-sale investments	19	4
	28	18

	2013 £m	2012 £m
Finance costs		
- Interest payable and similar charges		
£743 million/£750 million Revolving Credit Facilities ("RCF")[i]	(2)	(8)
Guaranteed Notes (see note 20)	(122)	(115)
Finance lease interest	(7)	(7)
	(131)	(130)
- Other finance income (expense)		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	22	20
Remeasurement of other derivative financial instruments (not qualifying for hedge accounting)	(1)	-
(Loss) gain arising on derivatives in a designated fair value hedge accounting relationship	(34)	47
Gain (loss) arising on adjustment for hedged item in a designated fair value hedge accounting relationship	36	(48)
	23	19
	(108)	(111)

(i) Included in RCF costs for the year ended 30 June 2012 is a write-off of £5 million relating to the facility fee on the £750 million RCF which has now been replaced with the £743 million RCF (see note 20)

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5 2% (2012 5 4%) to expenditure on such assets The amount capitalised in the current year amounted to £2 million (2012 £1 million)

5 PROFIT BEFORE TAXATION

Profit before taxation is stated after charging

	2013 £m	2012 £m
Cost of inventories recognised as an expense	1992	1854
Depreciation and impairment of property plant and equipment	176	179
Amortisation and impairment of intangible assets	202	165
Rentals on operating leases and similar arrangements	51	50

Consolidated non-current assets outside the UK were £8 million (2012 £2 million)

Foreign exchange

Foreign exchange losses recognised in the income statement during the year amounted to £1 million (2012 gains of £2 million)

Audit fees

An analysis of auditor's remuneration is as follows

	2013 £m	2012 £m
Total audit fees	1	1
Total non-audit fees	1	1
Total auditor remuneration	2	2

Fees payable to the Company's auditor for the audit of the Company's annual accounts were £1 2 million (2012 £1 1 million) and fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation were £0 1 million (2012 £0 3 million)

Amounts paid to the auditor for non-audit fees include audit related services of £0 3 million (2012 £0 3 million) taxation services of £0 3 million (2012 £0 3 million) other assurance services of £0 3 million (2012 £0 1 million) other advisory services of nil (2012 £0 1 million) and transaction services of £0 2 million (2012 nil)

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6. EMPLOYEE BENEFITS AND KEY MANAGEMENT COMPENSATION

a) Group employee benefits

	2013 £m	2012 £m
Wages and salaries	781	687
Social security costs	101	78
Costs of employee share option schemes[(i)]	80	66
Contributions to the Group s pension schemes[(ii)]	27	26
	989	**857**

(i) An £80 million charge relates to equity settled share based payments (2012 £66 million charge)

(ii) The Group operates defined contribution pension schemes The pension charge for the year represents the cost of contributions payable by the Group to the schemes during the year The amount payable to the schemes by the Group at 30 June 2013 was £2 million (2012 £5 million)

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

	2013 Number	2012 Number
Channels and services	2 701	2,466
Customer service sales and marketing	11 943	11 087
Transmission and technology	3 651	3 204
Management and administration	1,118	1180
	19,413	**17,937**

There are approximately 523 (2012 506) temporary staff included within the average number of full-time equivalent persons employed by the Group

b) Key management compensation (see note 28d)

	2013 £m	2012 £m
Short-term employee benefits	6	6
Share-based payments	10	7
	16	**13**

Post-employment benefits were less than £1 million (2012 less than £1 million) The amounts disclosed for key management compensation are included within the disclosures in note 6(a)

7. TAXATION

a) Taxation recognised in the income statement

	2013 £m	2012 £m
Current tax expense		
Current year	332	303
Adjustment in respect of prior years	(44)	(33)
Total current tax charge	**288**	**270**
Deferred tax expense		
Origination and reversal of temporary differences	(20)	6
Adjustment in respect of prior years	10	7
Total deferred tax (credit) charge	**(10)**	**13**
Taxation	**278**	**283**

Taxation relates to a £275 million UK corporation tax charge (2012 £280 million) and £3 million overseas corporation tax charge (2012 £3 million)

b) Taxation recognised directly in equity

	2013 £m	2012 £m
Current tax credit relating to share-based payments	(2)	(14)
Deferred tax (credit) charge relating to share-based payments	(6)	24
Deferred tax (credit) charge relating to cash flow hedges	(18)	16
	(26)	**26**

c) Reconciliation of effective tax rate

The tax expense for the year is lower (2012 lower) than the expense that would have been charged using the blended rate of corporation tax in the UK (23 75%) applied to profit before tax The applicable enacted or substantively enacted effective rate of UK corporation tax for the year was 23 75% (2012 25 5%) The differences are explained below

	2013 £m	2012 £m
Profit before tax	1257	1189
Profit before tax multiplied by blended rate of corporation tax in the UK of 23 75% (2012 25 5%)	299	303
Effects of		
Net effect of non-taxable/non-deductible items	13	3
Deferred tax write-off following tax rate change	-	2
Adjustments in respect of prior years	(34)	(25)
Taxation	**278**	**283**

8 EARNINGS PER SHARE

The weighted average number of shares for the year was

	2013 Millions of shares	2012 Millions of shares
Ordinary shares	1633	1731
ESOP trust ordinary shares	(19)	(10)
Basic shares	**1614**	**1,721**
Dilutive ordinary shares from share options	26	16
Diluted shares	**1640**	**1,737**

The calculation of diluted earnings per share excludes no share options (2012 less than 1 million) which could potentially dilute earnings per share in the future, but which have been excluded from the calculation of diluted earnings per share as they are anti-dilutive in the year

Basic and diluted earnings per share are calculated by dividing the profit for the year into the weighted average number of shares for the year In order to provide a measure of underlying performance, management have chosen to present an adjusted profit for the year which excludes items that may distort comparability Such items arise from events or transactions that fall within the ordinary activities of the Group but which management believes should be separately identified to help explain underlying performance

	2013 £m	2012 £m
Reconciliation from profit for the year to adjusted profit for the year		
Profit for the year	979	906
Credit received following final settlement of disputes with a former manufacturer of set-top boxes (see note 3)	(33)	-
Costs relating to a corporate efficiency programme (see note 3)	33	-
Credit received following an Ofcom determination (see note 3)	(32)	-
Costs relating to one-off upgrade of set-top boxes (see note 3)	31	-
Costs relating to programme to offer wireless connectors to selected Sky Movies customers (see note 3)	25	-
Costs relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business (see note 3)	15	-
Net recovery of costs in relation to News Corporation (subsequently renamed Twenty-First Century Fox, Inc) proposal (see note 3)	-	(31)
Costs relating to a restructuring exercise (see note 3)	-	11
RCF fee write-off (see note 4)	-	5
Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness (see note 4)	(23)	(19)
Profit on disposal of joint venture (see note 13)	(9)	(7)
Tax adjusting items and the tax effect of above items	(17)	10
Adjusted profit for the year	**969**	**875**

	2013 pence	2012 pence
Earnings per share from profit for the year		
Basic	60 7p	52 6p
Diluted	59 7p	52 2p
Adjusted earnings per share from adjusted profit for the year		
Basic	60 0p	50 8p
Diluted	59 1p	50 4p

Notes to the consolidated financial statements

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9. DIVIDENDS

	2013 £m	2012 £m
Dividends declared and paid during the year		
2011 Final dividend paid 14 54p per ordinary share	-	253
2012 Interim dividend paid 9 20p per ordinary share	-	157
2012 Final dividend paid 16 20p per ordinary share	265	-
2013 Interim dividend paid 11 00p per ordinary share	176	-
	441	**410**

The 2013 final dividend proposed is 19 0 pence per ordinary share being £299 million The dividend was not declared at the balance sheet date and is therefore not recognised as a liability as at 30 June 2013

Dividends are paid between Group companies out of profits available for distribution subject to inter alia, the provisions of the companies articles of association and the Companies Act 2006 The ESOP has waived its rights to dividends

10 GOODWILL

	£m
Carrying value	
At 1 July 2011	944
Purchase of Acetrax AG	12
At 30 June 2012	**956**
Purchase of O2 consumer broadband and fixed-line telephony business	49
Other	(6)
At 30 June 2013	**999**

Goodwill has principally arisen from the Group s purchases of the Sports Internet Group ("SIG"), British Interactive Broadcasting ("BiB") Easynet s UK broadband network assets and residential activities, 365 Media, Amstrad, Living TV The Cloud and the O2 consumer broadband and fixed-line telephony business

Goodwill allocated by cash generating unit, is analysed as follows

	2013 £m	2012 £m
Broadcast[(i)]	850	807
Betting and gaming[(ii)]	149	149
	999	**956**

Impairment reviews were performed on these goodwill balances at 30 June 2013 which did not indicate impairment

The Broadcast unit includes intangibles with indefinite lives of £25 million (2012 £25 million)

Recoverable amounts for the cash generating units were calculated on the basis of value in use or fair value less costs to sell as appropriate, using cash flows calculated for the next five years as forecast by management A long-term growth rate of 3% was applied in order to extrapolate cash flow projections beyond this period The cash flows of the Broadcast unit were discounted using a pre-tax discount rate of 8% (2012 8%) and the cash flows of the Betting and gaming unit were discounted using a pre-tax discount rate of 10% (2012 8%)

In determining the applicable discount rate management applied judgement in respect of several factors, which included inter alia assessing the risk attached to future cash flows and making reference to the capital asset pricing model (the "CAPM") Management gave consideration to the selection of appropriate inputs to the CAPM which included the risk free rate the equity risk premium and a measure of systematic risk Management also considers capital structure and an appropriate cost of debt in arriving at the discount rate

i) Broadcast
The Broadcast unit includes goodwill arising from the purchase of BiB, Easynet's UK broadband network assets and residential activities 365 Media s content activities, Amstrad Living TV, The Cloud and the O2 consumer broadband and fixed-line telephony business The key assumptions, on which forecast five year cash flows of the Broadcast unit were based include the number of gross customer additions the rate of churn the average revenue per user levels of programming spend acquisition costs per customer and anticipated changes in the product mix and marketing mix of the broadcast activities The values assigned to each of these assumptions were determined based on the extrapolation of historical trends within the Group and external information on expected future trends in the UK and Ireland entertainment and communications industry

ii) Betting and gaming
The Betting and gaming unit includes goodwill arising from the purchase of SIG and 365 Media s betting activities The key assumptions on which forecast five year cash flows were based include the number of weekly unique users, the number of bets placed per user per week the average stake per user per week and the average spend per active user per week The values assigned to each of these assumptions were determined based on an extrapolation of historical trends within the unit and external information on expected future trends in betting and gaming.

11. INTANGIBLE ASSETS

	Internally generated intangible assets £m	Software development (external) and software licences £m	Customer contracts and related customer relationships £m	Other intangible assets £m	Internally generated intangible assets not yet available for use £m	Acquired intangible assets not yet available for use £m	Total £m
Cost							
At 1 July 2011	214	435	60	183	26	92	1 010
Additions from business combinations	-	3	-	1	-	-	4
Additions	45	33	-	57	56	31	222
Disposals	(35)	(64)	-	(17)	-	-	(116)
Transfers	28	20	-	-	(28)	(20)	-
At 30 June 2012	**252**	**427**	**60**	**224**	**54**	**103**	**1,120**
Additions from business combinations	-	-	137	2	-	-	139
Additions	102	45	-	66	25	20	258
Disposals	(15)	(6)	-	-	(2)	(7)	(30)
Transfers	47	59	-	-	(47)	(59)	-
At 30 June 2013	**386**	**525**	**197**	**292**	**30**	**57**	**1 487**
Amortisation							
At 1 July 2011	103	320	6	119	-	-	548
Amortisation	54	52	3	56	-	-	165
Disposals	(35)	(64)	-	(17)	-	-	(116)
At 30 June 2012	**122**	**308**	**9**	**158**	**-**	**-**	**597**
Amortisation	72	55	7	57	-	-	191
Disposals	(15)	(6)	-	-	(2)	(7)	(30)
Impairments	2	-	-	-	2	7	11
At 30 June 2013	**181**	**357**	**16**	**215**	**-**	**-**	**769**
Carrying amounts							
At 1 July 2011	111	115	54	64	26	92	462
At 30 June 2012	130	119	51	66	54	103	523
At 30 June 2013	**205**	**168**	**181**	**77**	**30**	**57**	**718**

In order to improve the presentation of the Group's intangible assets "Customer contracts and related customer relationships have been disaggregated from the "Other intangible assets" category and 'Software licences" have been aggregated with the "Software development (external)" category The prior year comparatives have been re-presented accordingly

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

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

	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m
Estimated amortisation charge	235	162	111	50	44

For intangible assets acquired in business combinations in the year the average amortisation period is 6 years (2012 9 years)

Other intangible assets include certain assets with indefinite useful lives The carrying value of these assets is £25 million (2012 £25 million) An impairment review of the assets is performed annually as part of the Group's review of the Broadcast CGU (note 10)

Notes to the consolidated financial statements

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12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings(i)(ii) £m	Leasehold improvements £m	Equipment, furniture and fixtures £m	Assets not yet available for use £m	Total £m
Cost					
At 1 July 2011	332	59	1139	30	1560
Foreign exchange movements	-	-	(1)	-	(1)
Additions	-	1	192	38	231
Disposals	-	(1)	(160)	-	(161)
Transfers	1	-	40	(41)	-
At 30 June 2012	**333**	**59**	**1,210**	**27**	**1,629**
Additions from business combinations	-	-	25	-	25
Additions	1	1	194	48	244
Disposals	-	(2)	(64)	-	(66)
Transfers	-	-	22	(22)	-
At 30 June 2013	**334**	**58**	**1,387**	**53**	**1832**
Depreciation					
At 1 July 2011	31	22	611	-	664
Foreign exchange movements	-	-	(1)	-	(1)
Depreciation	10	6	163	-	179
Disposals	(1)	(1)	(159)	-	(161)
At 30 June 2012	**40**	**27**	**614**	**-**	**681**
Depreciation	6	8	160	-	174
Disposals	-	(2)	(64)	-	(66)
Impairments	-	1	1	-	2
At 30 June 2013	**46**	**34**	**711**	**-**	**791**
Carrying amounts					
At 1 July 2011	301	37	528	30	896
At 30 June 2012	293	32	596	27	948
At 30 June 2013	**288**	**24**	**676**	**53**	**1,041**

(i) The amounts shown include assets held under finance leases with a net book value of £13 million (2012 £5 million) The cost of these assets was £20 million (2012 £11 million) and the accumulated depreciation was £7 million (2012 £6 million) Depreciation charged during the year on such assets was £1 million (2012 £1 million)

(ii) Depreciation was not charged on £88 million of land (2012 £88 million)

13. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

A list of the Group's significant investments in joint ventures and associates including the name country of incorporation and proportion of ownership interest is given in note 31 to the consolidated financial statements

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

	2013 £m	2012 £m
Share of net assets		
At 1 July	156	151
Movement in net assets		
- Funding net of repayments	4	6
- Dividends received(i)	(43)	(39)
- Share of profits(i)	46	39
- Disposal of joint venture(i)	(1)	(3)
- Exchange differences on translation of foreign joint ventures and associates	2	2
At 30 June	**164**	**156**

(i) During the year the Group disposed of its interest in MUTV Limited Included in share of profits for the year is a profit on disposal of £9 million Consideration received on the sale of £10 million is included within dividends received During the prior year the Group disposed of its interest in Chelsea Digital Media Limited Included in share of profits for the year is a profit on disposal of £7 million Consideration received on the sale to date of £6 million is included within dividends received

The Group's share of any capital commitments and contingent liabilities of associates and joint ventures is shown in note 26

a) Investments in joint ventures
Representing the Group's share of each joint venture

	2013 £m	2012 £m
Non-current assets	19	29
Current assets	71	75
Current liabilities	(32)	(32)
Non-current liabilities	(40)	(46)
Shareholders equity	18	26
Revenue	90	84
Expense	(70)	(69)
Taxation	(5)	(4)
Share of profit from joint ventures	**15**	**11**

b) Investments in associates
Representing a 100% share of each associate

	2013 £m	2012 £m
Total assets	308	256
Total liabilities	(86)	(78)
Shareholders' equity	222	178
Revenue(i)	325	296
Profit(i)	107	105

(i) Revenue and profit numbers are provided for the full year ended 30 June 2013 and 30 June 2012

14. AVAILABLE-FOR-SALE INVESTMENTS

	2013 £m	2012 £m
Investment in ITV at cost	946	946
Impairment of ITV investment	(807)	(807)
Realised gain on ITV investment	115	115
Part disposal of ITV investment	(196)	(196)
Unrealised gain on ITV investment	351	165
Fair value of ITV investment	**409**	**223**
Other investments at cost	13	5
	422	**228**

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

The fair value is determined with reference to its equity share price at the balance sheet date In accordance with IFRS, the Group has recognised impairment losses in the years ended 30 June 2008 and 30 June 2009, the first of which was recorded at 31 December 2007 due to the significant and prolonged decline in the equity share price The latest impairment loss was determined with reference to ITV's closing equity share price of 20 0 pence at 27 March 2009 bringing the cumulative impairment loss to £807 million In line with IFRS, all subsequent increases in the fair value of the ITV investment above this impaired value have been recorded in the available-for-sale reserve

On 8 February 2010 the Group placed a shareholding of 10 4% in ITV in accordance with the final undertakings given by the Group to the Secretary of State for Business Innovation and Skills relating to the Group s investment in ITV The placing by the Group of 404 362 095 ITV shares at 48 5 pence per share resulted in aggregate consideration of £196 million A profit of £115 million was realised on disposal being the excess of the consideration above the impaired value of the shares The Group continues to hold just under 7.5% of the shares in ITV

The disposal was exempt from tax under the provisions of the Substantial Shareholding Exemption (SSE) and as such the SSE provisions prevent any capital loss arising for tax purposes

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

Notes to the consolidated financial statements

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15. DEFERRED TAX

i) Recognised deferred tax assets (liabilities)

	Accelerated tax depreciation £m	Tax losses £m	Short-term temporary differences £m	Share based payments temporary differences £m	Financial instruments temporary differences £m	Total £m
At 1 July 2011	14	1	6	58	(10)	69
Charge to income	(1)	-	-	(6)	(5)	(12)
Credit to equity	-	-	-	(23)	(18)	(41)
Acquisition of subsidiaries	(1)	-	-	-	-	(1)
Effect of change in tax rate						
- Income	-	-	-	(2)	1	(1)
- Equity	-	-	-	(1)	2	1
At 30 June 2012	12	1	6	26	(30)	15
(Charge) credit to income	(2)	(1)	-	18	(5)	10
Credit to equity	-	-	-	6	18	24
Acquisition of subsidiaries	(12)	-	-	-	-	(12)
Effect of change in tax rate						
- Income	1	-	(1)	(1)	1	-
At 30 June 2013	(1)	-	5	49	(16)	37

Deferred tax assets have been recognised at 30 June 2013 and 30 June 2012 on the basis that from management s current forecast of the Group s entities, it is probable that there will be suitable taxable profits against which these assets can be utilised Tax losses are treated as unrecognised deferred tax assets if it is not considered probable that suitable future taxable profits will arise During the year any tax losses suffered by UK entities have been relieved against taxable profits in other UK entities in the Group

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which they reverse The rate enacted or substantively enacted for the relevant periods of reversal is 23% as at 30 June 2013 (2012 24%)

The Government has indicated that it intends to introduce further reductions in the main tax rate with the rate falling by 2% to 21% on 1 April 2014 and a further 1% to 20% on 1 April 2015 These further reductions to the tax rate below the 23% rate have not been substantively enacted at the balance sheet date and are therefore not reflected in these consolidated financial statements

The impact of the reduction in the main tax rate to 21% (2012 22%) on the deferred tax attributes of the Group would be a reduction in the deferred tax asset of £3 million (2012 £1 million)

Certain deferred tax assets and liabilities have been offset The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes

	2013 £m	2012 £m
Deferred tax assets	70	46
Deferred tax liabilities	(33)	(31)
	37	15

ii) Unrecognised deferred tax assets

	2013 £m	2012 £m
Tax losses arising from trading	271	252
Tax losses arising from capital disposals and provisions against investments	323	341
	594	593

Deferred tax assets have not been recognised in respect of the items above because it is not probable that future taxable profits will be available against which the Group can utilise the losses

At 30 June 2013, a deferred tax asset of £15 million (2012 £14 million) principally arising from UK losses in the Group, has not been recognised These losses can only be offset against taxable profits generated in the entities concerned There is currently insufficient evidence to support the recognition of a deferred tax asset relating to these losses The UK trading losses can be carried forward indefinitely

At 30 June 2013 a deferred tax asset of £256 million (2012 £238 million) has not been recognised in respect of overseas trading losses on the basis that it is not probable that these temporary differences will be utilised These losses include £250 million (2012 £235 million) with respect to the Group's German holding company's former investment in KirchPayTV and £6 million (2012 £3 million) with respect to other subsidiaries £2 million of the overseas trading losses can be carried forward indefinitely and £4 million of the losses will expire over the course of the next seven years

At 30 June 2013, a deferred tax asset of £312 million (2012 £329 million) has not been recognised in respect of capital losses related to the Group's former investment in KirchPayTV on the basis that utilisation of these temporary differences is not probable At 30 June 2013 the Group also has capital losses with a tax value estimated to be £11 million (2012 £12 million) including impairment of a football club and other investments which have not been recognised as a deferred tax asset on the basis that it is not probable that they will be utilised The capital losses can be carried forward indefinitely

16. INVENTORIES

	2013 £m	2012 £m
Television programme rights	470	379
Set-top boxes and related equipment	70	69
Other inventories	8	8
Current inventory	**548**	**456**
Non-current programme distribution rights	17	-
Total inventory	**565**	**456**

At 30 June 2013, 89% (2012 81%) of the television programme rights and 100% (2012 100%) of set-top boxes and related equipment and other inventories is expected to be recognised in the income statement within 12 months

17. TRADE AND OTHER RECEIVABLES

	2013 £m	2012 £m
Gross trade receivables	163	170
Less provision for impairment of receivables	(89)	(89)
Net trade receivables	**74**	**81**
Amounts receivable from joint ventures and associates	8	8
Amounts receivable from other related parties	7	12
Prepayments	309	294
Accrued income	162	155
VAT	1	1
Other	30	70
Current trade and other receivables	**591**	**621**
Prepayments	6	7
Other receivables	11	10
Non-current trade and other receivables	**17**	**17**
Total trade and other receivables	**608**	**638**

Included within current trade and other receivables is nil (2012 nil) which is due in more than one year

The ageing of the Group's net trade receivables which are past due but not impaired is as follows

	2013 £m	2012 £m
Up to 30 days past due date	52	49
30 to 60 days past due date	5	1
60 to 120 days past due date	2	2
	59	52

The Directors consider that the carrying amount of trade and other receivables approximates their fair values The Group is exposed to credit risk on its trade and other receivables, however the Group does not have any significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers Trade receivables principally comprise amounts outstanding from subscribers, advertisers and other customers

Provisions for doubtful debts

	2013 £m	2012 £m
Balance at beginning of year	89	195
Amounts utilised	(36)	(137)
Provided during the year	36	31
Balance at end of year	**89**	**89**

Notes to the consolidated financial statements

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18. TRADE AND OTHER PAYABLES

	2013 £m	2012 £m
Trade payables[i]	712	629
Amounts owed to joint ventures and associates	9	10
Amounts owed to other related parties	102	90
VAT	143	140
Accruals	685	620
Deferred income	295	291
Other	77	75
Current trade and other payables	**2,023**	**1,855**
Trade payables	18	9
Amounts owed to other related parties	–	8
Deferred income	9	6
Other	36	4
Non-current trade and other payables	**63**	**27**
Total trade and other payables	**2,086**	**1,882**

(i) Included within trade payables are £225 million (2012 £226 million) of US dollar-denominated payables

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

19 PROVISIONS

	At 1 July 2011 £m	Provided during the year £m	Utilised during the year £m	At 1 July 2012 £m	Reclassified during the year £m	Provided (released) during the year £m	Utilised during the year £m	At 30 June 2013 £m
Current liabilities								
Restructuring provision[i]	–	6	–	6	–	13	(3)	16
Acquired and acquisition-related provisions[ii]	11	4	–	15	(1)	(14)	–	–
Customer-related provisions[iii]	–	–	–	–	–	47	(6)	41
Other provisions[iv]	10	18	(6)	22	17	17	(19)	37
	21	**28**	**(6)**	**43**	**16**	**63**	**(28)**	**94**
Non-current liabilities								
Other provisions[v]	**9**	**7**	**(4)**	**12**	**2**	**6**	**(6)**	**14**

(i) These provisions significantly relate to costs incurred as part of a corporate efficiency programme
(ii) These provisions arose on the acquisition of Amstrad which took place during the year ended 30 June 2008
(iii) These provisions are for those costs incurred in the one-off upgrade of set top boxes and the programme to offer wireless connectors to selected Sky Movies customers
(iv) Included in other provisions are amounts provided for onerous contracts for property leases maintenance legal disputes and warranty liabilities which have been reclassified to provisions during the year The timing of the cash flows for onerous property leases and maintenance are dependent on the terms of the remaining leases The timing of the cash flows for legal disputes cannot be reasonably determined
(v) Included within non-current other provisions are amounts provided for onerous contracts for property leases and maintenance The timing of the cash flows are dependent on the terms of the leases but are expected to continue up to September 2025

20. BORROWINGS

	2013 £m	2012 £m
Current borrowings		
Obligations under finance leases[ii]	11	8
Non-current borrowings		
US$750 million of 5 625% Guaranteed Notes repayable in October 2015[i]	496	500
£400 million of 5 750% Guaranteed Notes repayable in October 2017[i]	404	407
US$750 million of 6 100% Guaranteed Notes repayable in February 2018[i]	498	495
US$582 8 million of 9 500% Guaranteed Notes repayable in November 2018[i]	404	420
US$800 million of 3 125% Guaranteed Notes repayable in November 2022[i]	520	-
£300 million of 6 000% Guaranteed Notes repayable in May 2027[i]	296	296
US$350 million of 6 500% Guaranteed Notes repayable in October 2035[i]	225	220
Obligations under finance leases[ii]	66	60
	2 909	**2,398**

(i) Guaranteed Notes

At 30 June 2013 the Group had in issue the following Guaranteed Notes which were issued by the Company

		Interest Rate Hedging		Hedged Interest Rates	
	Hedged Value* £m	Fixed £m	Floating £m	Fixed	Floating
US$750 million of 6 100% Guaranteed Notes repayable in February 2018	387	290	97	6 829%	6m LIBOP + 1 892%
US$582 8 million of 9 500% Guaranteed Notes repayable in November 2018	389	260	129	7 091%	6m LIBOR + 5 542%
US$800 million of 3 125% Guaranteed Notes repayable in November 2022	503	503	-	3 226%	N/A
£300 million of 6 000% Guaranteed Notes repayable in May 2027	300	300	-	6 000%	N/A
	1 579	**1 353**	**226**		

At 30 June 2013, the Group had in issue the following Guaranteed Notes, which were issued by BSkyB Finance UK plc

		Interest Rate Hedging		Hedged Interest Rates	
	Hedged Value* £m	Fixed £m	Floating £m	Fixed	Floating
US$750 million of 5 625% Guaranteed Notes repayable in October 2015	428	171	257	5 427%	6m LIBOR + 0 698%
£400 million of 5 750% Guaranteed Notes repayable in October 2017	400	350	50	5 750%	6m LIBOR - 0 229%
US$350 million of 6 500% Guaranteed Notes repayable in October 2035	200	200	-	5 826%	N/A
	1,028	**721**	**307**		

At 30 June 2012, the Group had in issue the following Guaranteed Notes, which were issued by the Company

		Interest Rate Hedging		Hedged Interest Rates	
	Hedged Value* £m	Fixed £m	Floating £m	Fixed	Floating
US$750 million of 6 100% Guaranteed Notes repayable in February 2018	387	290	97	6 829%	6m LIBOR + 1 892%
US$582 8 million of 9 500% Guaranteed Notes repayable in November 2018[(a)]	389	260	129	7 091%	6m LIBOR + 5 542%
£300 million of 6 000% Guaranteed Notes repayable in May 2027	300	300	-	6 000%	N/A
	1 076	**850**	**226**		

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

At 30 June 2012, the Group had in issue the following Guaranteed Notes, which were issued by BSkyB Finance UK plc

		Interest Rate Hedging		Hedged Interest Rates	
	Hedged Value* £m	Fixed £m	Floating £m	Fixed	Floating
US$750 million of 5 625% Guaranteed Notes repayable in October 2015	428	171	257	5 427%	6m LIBOR + 0 698%
£400 million of 5 750% Guaranteed Notes repayable in October 2017	400	350	50	5 750%	6m LIBOR - 0 229%
US$350 million of 6 500% Guaranteed Notes repayable in October 2035	200	200	-	5 826%	N/A
	1,028	**721**	**307**		

* Note Hedged value is the final redemption value including any hedging

The Group has a Euro Medium Term Note Programme (the "Programme") which provides the Group with a standardised documentation platform for senior debt issuance in the Eurobond markets The £300 million of 6 000% Guaranteed Notes maturing in May 2027 have been issued under the Programme which allows issuance of up to £1 billion

Notes to the consolidated financial statements

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20. BORROWINGS *continued*

(ii) Finance leases

The minimum lease payments under finance leases fall due as follows

	2013 £m	2012 £m
Within one year	11	8
Between one and two years	11	8
Between two and three years	11	8
Between three and four years	8	8
Between four and five years	8	8
After five years	144	153
	193	193
Future finance charges on finance lease liabilities	(116)	(125)
Present value of finance lease liabilities	**77**	**68**

The main obligations under finance leases are in relation to

(a) finance arrangements in connection with the broadband network infrastructure During the year repayments of £7 million (2012 £7 million) were made against the lease A proportion of these payments have been allocated against the capital outstanding The lease bears interest at a rate of 11 1% and expires in November 2039

(b) finance arrangements in connection with the contact centre in Dunfermline During the year, repayments of £1 million (2012 £1 million) were made against the lease A proportion of these payments have been allocated against the capital amount outstanding The lease bears interest at a rate of 8 5% and expires in September 2020

(c) finance arrangements in connection with datacentre equipment The Group entered into the arrangements during the year, and repayments of less than £1 million were made against the lease A proportion of these payments have been allocated against the capital amount outstanding The lease bears interest at a rate of 3 6% and expires in June 2016

(iii) Revolving Credit Facility

The Group has a £743 million RCF with a maturity date of 31 October 2017 syndicated across 10 counterparty banks, each with a minimum credit rating of Baa1" or equivalent from Standard & Poor's At 30 June 2013 the RCF was undrawn (2012 undrawn)

The Group is subject to two financial covenants under the RCF a maximum leverage ratio and a minimum interest cover ratio which are tested at the end of each six monthly period The key financial covenants are the ratio of Net Debt to EBITDA (as defined in the loan agreements) and EBITDA to Net Interest Payable (as defined in the loan agreements) Net Debt to EBITDA must be no more than 3 00 1 and EBITDA to Net Interest Payable must be at least 3 50 1 The Group was in compliance with these covenants for all periods presented

(iv) Guarantees

The following guarantees are in place relating to the Group s borrowings (a) British Sky Broadcasting Limited Sky Subscribers Services Limited, BSkyB Finance UK plc and Sky In-Home Service Limited have given joint and several guarantees in relation to the Company's £743 million RCF and the outstanding Guaranteed Notes issued by the Company (b) the Company British Sky Broadcasting Limited Sky Subscribers Services Limited and Sky In-Home Service Limited have given joint and several guarantees in relation to the outstanding Guaranteed Notes issued by BSkyB Finance UK plc

21. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

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

	2013				2012			
	Asset		Liability		Asset		Liability	
	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m
Fair value hedges								
Interest rate swaps	108	851	-	-	141	833	-	-
Cash flow hedges								
Cross-currency swaps	166	1,117	-	47	186	661	-	-
Forward foreign exchange contracts	37	1146	(26)	973	28	880	(3)	223
Currency options (collars)	-	-	-	-	2	13	-	13
Derivatives not in a formal hedge relationship								
Cross-currency swaps	67	353	(15)	390	57	353	(28)	390
Forward foreign exchange contracts	1	114	(1)	49	-	25	(1)	127
Interest rate swaps	1	260	-	-	-	140	-	120
Total	380	3,841	(42)	1459	414	2,905	(32)	873

The maturity of the derivative financial instruments is as follows

	2013		2012	
	Asset £m	Liability £m	Asset £m	Liability £m
In one year or less	15	(13)	23	(2)
Between one and two years	15	(6)	6	(1)
Between two and five years	251	(8)	101	(1)
In more than five years	99	(15)	284	(28)
Total	380	(42)	414	(32)

The fair value of the Groups debt-related derivative portfolio at 30 June 2013 was a £327 million net asset (2012 net asset of £356 million) with net notional principal amounts totalling £1,957 million (2012 £1 454 million) This comprised net assets of £166 million designated as cash flow hedges (2012 net assets of £186 million) net assets of £108 million designated as fair value hedges (2012 net assets of £141 million) and net assets of £53 million not designated in a formal hedge relationship (2012 net assets of £29 million)

At 30 June 2013 the carrying value of financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss was nil (2012 nil)

Hedge accounting classification and impact

The Group has designated certain interest rate swaps as fair value hedges of interest rate risk representing 30% (2012 37%) of the Group's debt portfolio Movements in the fair value of the hedged items are taken to the income statement and are offset by movements in the fair value of the hedging instruments to the extent that hedge accounting is achieved

The Group has designated certain fixed rate cross-currency swaps as cash flow hedges of 47% (2012 34%) of the Group's debt portfolio As such the effective portion of the gain or loss on these contracts is reported as a separate component of the hedging reserve and is then reclassified to the income statement in the same periods that the forecast transactions affect the income statement During the current year, gains of £40 million were removed from the hedging reserve and credited to finance costs in the income statement to offset the currency translation movements in the underlying hedged debt (2012 gains of £22 million)

The Group designates certain forward foreign exchange contracts and the intrinsic element of options (collars) as cash flow hedges of forecast foreign currency sales and purchases Gains or losses are released from the hedging reserve and recycled to the income statement in the same period as the hedged item is recognised If forecast transactions are no longer expected to occur, any amounts included in the hedging reserve related to that forecast transaction would be recognised directly in the income statement During the current year, gains of £2 million were removed from the hedging reserve and credited to operating expense in the income statement (2012 gains of £3 million) Gains of £8 million were removed from the hedging reserve and credited to revenue in the income statement (2012 gains of £5 million)

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21 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS *continued*

Hedge effectiveness testing is performed quarterly using the dollar-offset approach The actual movement in the hedging items is compared with the movement in the valuation of the hypothetically perfect hedge of the underlying risk at inception and any ineffectiveness is recognised directly in the income statement Ineffectiveness of £2 million was recognised in the income statement during the current year (2012 £1 million)

A hedge relationship is deemed to be effective if the ratio of changes in valuation of the underlying hedged item and the hedging instrument is within the range of 80% to 125% Any relationship which has a ratio outside this range is deemed to be ineffective, at which point hedge accounting is suspended During the year ended 30 June 2013 there were no instances in which the hedge relationship was not highly effective (2012 no instances)

Financial instruments

(a) Carrying value and fair value

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

	Held to maturity investments £m	Available-for-sale £m	Derivatives deemed held for trading £m	Derivatives in hedging relationships £m	Loans and receivables £m	Other liabilities £m	Total carrying value £m	Total fair value £m
At 30 June 2013								
Quoted bond debt	-	-	-	-	-	(2 843)	(2 843)	(3 185)
Derivative financial instruments	-	-	53	285	-	-	338	338
Trade and other payables	-	-	-	-	-	(1 567)	(1 567)	(1 567)
Provisions	-	-	-	-	-	(74)	(74)	(74)
Obligations under finance leases and other borrowings	-	-	-	-	-	(77)	(77)	(77)
Available-for-sale investments	-	422	-	-	-	-	422	422
Trade and other receivables	-	-	-	-	278	-	278	278
Short-term deposits	595	-	-	-	-	-	595	595
Cash and cash equivalents	65	-	-	-	750	-	815	815
At 30 June 2012								
Quoted bond debt	-	-	-	-	-	(2 338)	(2 338)	(2 674)
Derivative financial instruments	-	-	28	354	-	-	382	382
Trade and other payables	-	-	-	-	-	(1,378)	(1 378)	(1 378)
Provisions	-	-	-	-	-	(12)	(12)	(12)
Obligations under finance leases and other borrowings	-	-	-	-	-	(68)	(68)	(68)
Available-for-sale investments	-	228	-	-	-	-	228	228
Trade and other receivables	-	-	-	-	278	-	278	278
Short-term deposits	710	-	-	-	-	-	710	710
Cash and cash equivalents	-	-	-	-	464	-	464	464

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

> The fair value of financial assets and financial liabilities with standard terms and conditions and which are traded on active liquid markets is determined with reference to quoted market prices,

> The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments

> Foreign currency forward contracts and options are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts,

> Interest rate and cross-currency swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, and

> The fair value of obligations under finance leases and other borrowings is estimated by discounting the future cash flows to net present value The fair value of short-term deposits and cash and cash equivalents is equivalent to carrying value due to the short-term nature of these instruments

The differences between carrying values and fair values reflect unrealised gains or losses inherent in the financial instruments based on valuations as at 30 June 2013 and 30 June 2012 The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above

Cash and cash equivalents classified as held to maturity investments comprise money market deposits which have maturity dates of less than three months from inception Money market deposits, enhanced return investments and tri-party repurchase agreements which have maturity greater than three months from inception are classified as short-term deposits

Cash and cash equivalents classified as loans and receivables mainly comprise investments in AAAm rated money market funds which can be withdrawn without notice

(b) Fair value hierarchy

The following table categorises the Groups financial instruments which are held at fair value into 1 of 3 levels to reflect the degree to which observable inputs are used in determining their fair values

	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m
At 30 June 2013				
Assets measured at fair value				
Available-for-sale financial instruments				
ITV investment	409	409	-	-
Other investments at cost	13	-	-	13
Financial assets at fair value through profit or loss				
Interest rate swaps	109	-	109	-
Cross-currency swaps	233	-	233	-
Forward foreign exchange and option contracts	38	-	38	-
Total	**802**	**409**	**380**	**13**
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Cross-currency swaps	(15)	-	(15)	-
Forward foreign exchange and option contracts	(27)	-	(27)	-
Total	**(42)**	-	**(42)**	-
At 30 June 2012				
Assets measured at fair value				
Available-for-sale financial instruments				
ITV investment	223	223	-	-
Other investments at cost	5	-	-	5
Financial assets at fair value through profit or loss				
Interest rate swaps	141	-	141	-
Cross-currency swaps	243	-	243	-
Forward foreign exchange and option contracts	30	-	30	-
Total	**642**	**223**	**414**	**5**
Liabilities measured at fair value				
Financial liabilities at fair value through profit or loss				
Cross-currency swaps	(28)	-	(28)	-
Forward foreign exchange and option contracts	(4)	-	(4)	-
Total	**(32)**	-	**(32)**	-

Level 1

Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2

Fair values measured using inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly

Level 3

Fair values measured using inputs for the asset or liability that are not based on observable market data

Notes to the consolidated financial statements

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22. FINANCIAL RISK MANAGEMENT

Group Treasury activity

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

The Group's principal market risks are exposures to changes in interest rates and foreign exchange rates, which arise both from the Group s sources of finance and its operations Following evaluation of those market risks the Group selectively enters into derivative financial instruments to manage these exposures The principal instruments currently used are interest rate swaps to hedge interest rate risks, and cross-currency swaps, forward foreign exchange contracts and currency options (collars) to hedge transactional and translational currency exposures

Interest rate risk

The Group has financial exposures to both UK and US interest rates arising primarily from the Group s long-term bonds and other borrowings The Group's hedging policy requires that between 50% and 85% of borrowings are held at fixed rates This is achieved by issuing fixed rate bonds and then using interest rate swaps to adjust the balance between fixed and floating rate debt The Group s bank debt is at floating rates, and when drawn, means that the mix of fixed and floating rate debt fluctuates and is therefore managed to ensure compliance with the Group s hedging policy At 30 June 2013, 80% of borrowings were held at fixed rates after hedging (2012 75%)

The Group uses derivatives to convert all of its US dollar-denominated debt and associated interest rate obligations to pounds sterling (see section on foreign exchange risk for further detail) At 30 June 2013 the Group had no net US dollar denominated interest rate exposure on its borrowings

The Group designates its interest rate swaps as fair value hedges of interest rate risk Movements in the fair value of the hedged exposure are taken to the income statement and are offset by movements in the fair value of the hedging instruments which are also taken to the income statement Any hedge ineffectiveness is recognised directly in the income statement In the year ended 30 June 2013 this amounted to £2 million (2012 £1 million)

At 30 June 2013 and 30 June 2012, the Group's annual finance costs would be unaffected by any change to the Group's credit rating in either direction

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative financial instruments at the balance sheet date For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date is outstanding for the whole year

For each one hundred basis point rise or fall in interest rates at 30 June 2013 and if all other variables were held constant

> The Group s profit for the year ended 30 June 2013 would increase or decrease by £9 million (2012 profit for the year would increase or decrease by £4 million) The year on year increase is driven by an increase in the cash balance held and by the fixing of £260 million of debt
> Other equity reserves would decrease or increase by £15 million (2012 decrease or increase by £14 million) arising from movements in cash flow hedges

A one hundred basis point rise or fall in interest rates represents a large but realistic movement which can easily be multiplied to give sensitivities at different interest rates

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group s actual exposure to market rates changes as the Group s portfolio of debt, cash and foreign currency contracts changes In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses

Foreign exchange risk

A combination of cross-currency and interest rate swap arrangements is used to convert the Group s US dollar denominated debt and associated interest rate obligations to pounds sterling, at fixed exchange rates At 30 June 2013 the split of the Group s aggregate borrowings into their core currencies was US dollar 73% and pounds sterling 27% (2012 US dollar 67% and pounds sterling 33%) At 30 June 2013, 100% of the Group's long-term borrowings after the impact of derivatives are denominated in pounds sterling

The Group s revenues and operating expenses are substantially denominated in pounds sterling A small proportion of operating expenses is denominated in US dollars, while a small proportion of revenues is denominated in euros In the current year, approximately 10% of operating expenses (£614 million) was denominated in US dollars (2012 approximately 10% (£532 million)) and 5% of revenues (£392 million) was denominated in euros (2012 6% (£382 million))

The US dollar expense relates mainly to the Group's programming contracts with US suppliers, together with US dollar-denominated set-top box costs The euro revenues primarily relate to subscribers located in Ireland The Group s exposure to euro-denominated revenue is offset to a certain extent by euro-denominated costs related mainly to certain transponder costs, the net position being a euro surplus (2012 surplus)

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

The Group hedges currency exposures on US dollar and euro-denominated highly probable cash flows by using forward foreign exchange contracts and options (collars) purchased up to five years ahead of the cash flow

It is the Group s policy that all anticipated foreign currency exposures are substantially hedged in advance of the year in which they occur

At 30 June 2013, the Group had purchased forward foreign exchange contracts and collars representing up to

- Approximately 90% of US dollar-denominated costs falling due within one year (2012 85%), and approximately 80% of US dollar-denominated costs falling due within five years (2012 approximately 80%) which are hedged via
  - Outstanding commitments to purchase, in aggregate US$1,926 million (2012 US$1,298 million) at an average rate of US$1 56 to £1 00 (2012 US$1 58 to £1 00)
  - Collars relating to the purchase of a total of US$nil (2012 US$20 million) in aggregate
- Approximately 95% of net euro-denominated revenues falling due within one year (2012 approximately 75%) and approximately 80% of net euro-denominated revenues falling due within four years (2012 nil) which are hedged via
  - Outstanding commitments to sell, in aggregate, €1 039 million (2012 €400 million) at an average rate of €1 19 to £1 00 (2012 €1 18 to £1 00)
  - Outstanding commitments to purchase, in aggregate €119 million (2012 €88 million) at an average rate of €1 16 to £1 00 (2012 €1 22 to £1 00)

No forward foreign exchange contracts or collars fall due beyond five years (2012 none)

The Group designates the following as cash flow hedges for hedge accounting purposes

- Forward foreign exchange contracts
- The intrinsic value of collars (all other fair value movements are recognised directly in the income statement)
- Cross-currency swaps where interest on both legs is at a fixed interest rate

As such the effective portion of the gain or loss on these contracts is reported as a component of the hedging reserve outside the income statement and is then reclassified to the income statement in the same periods that the forecast transactions affect the income statement Ineffectiveness of £1 million was recognised in the income statement during the year (2012 less than £1 million)

A combination of US dollar denominated interest rate and US dollar/pound sterling cross-currency swaps is used to convert fixed dollar denominated debt to floating sterling denominated debt The interest rate swaps are designated as fair value hedges The associated cross-currency swaps are not designated as hedging instruments for hedge accounting purposes and as such, movements in their value are recorded directly in the income statement

Foreign exchange sensitivity

The following analyses details the Group s sensitivity to movements in pounds sterling against those currencies in which it has significant transactions The sensitivity analysis includes foreign currency denominated assets and liabilities at the balance sheet date and outstanding foreign currency denominated financial instruments and adjusts their translation at the period end for a 25% change in foreign currency rates

A 25% strengthening in pounds sterling against the US dollar would have the effect of reducing profit by £21 million (2012 reducing profit by £27 million), of which losses of £23 million relate to non-cash movements in the valuation of derivatives (2012 losses of £26 million) The same strengthening would have an adverse impact on other equity of £237 million (2012 adverse impact of £185 million)

A 25% weakening in pounds sterling against the US dollar would have the effect of increasing profit by £34 million (2012 increasing profit by £45 million) of which gains of £38 million relate to non-cash movements in the valuation of derivatives (2012 gains of £44 million) The same weakening would have a beneficial impact on other equity of £395 million (2012 beneficial impact of £309 million)

A 25% strengthening in pounds sterling against the euro would have the effect of decreasing profit by £1 million (2012 increasing profit by less than £1 million) None of this amount relates to non-cash movements in the valuation of derivatives The same strengthening would have a beneficial impact on other equity of £157 million (2012 beneficial impact of £52 million)

A 25% weakening in pounds sterling against the euro would have the effect of increasing profit by £1 million (2012 reducing profit by less than £1 million) None of this amount relates to non-cash movements in the valuation of derivatives The same weakening would have an adverse impact on other equity of £262 million (2012 adverse impact of £86 million)

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group s actual exposure to market rates is constantly changing as the Group's portfolio of debt cash and foreign currency contracts changes In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses

Hedge accounting

The interest rate and foreign exchange rate risk sections above outline the Group s policies regarding use of derivative products Further detail on valuations and the impact of hedge accounting during the year are provided in note 21

Credit risk

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

This risk is deemed to be low Counterparty risk forms a central part of the Group's Treasury policy which is monitored and reported on regularly The Group manages credit risk by diversifying its exposures across a wide number of counterparties such that the maximum exposure to any individual counterparty was less than 10% of the total asset value of instruments at the end of the year Treasury policies ensure that all derivative transactions are only effected with strong relationship banks and, at the date of signing, each carried a minimum credit rating of "Baa1" or equivalent from Standard & Poor's

Notes to the consolidated financial statements

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22. FINANCIAL RISK MANAGEMENT *continued*

The amount recognised in the income statement in respect of credit risk for derivatives deemed held for trading is nil (2012 nil)

Credit risk in our residential customer base is mitigated by billing and collecting in advance for digital television subscriptions for over 99% of our residential customer base The Group s maximum exposure to credit risk on trade receivables is the carrying amounts as disclosed in note 17

Liquidity risk

Our principal source of liquidity is cash generated from operations, combined with access to a £743 million RCF, which expires in October 2017, with the right to request an extension of one further year At 30 June 2013 this facility was undrawn (30 June 2012 undrawn)

To ensure continuity of funding, the Group s policy is to ensure that available funding matures over a period of years At 30 June 2013, 40% (2012 59%) of the Group's total available funding (including available undrawn amounts on our RCF) was due to mature in more than five years

Full details of the Group s borrowings and undrawn facilities are shown in note 20 other than trade and other payables shown in note 18 and provisions, shown in note 19

The following table analyses the Group s non-derivative financial liabilities, net settled derivative financial instruments and gross settled financial instruments into relevant maturity groupings, based on the remaining period at the balance sheet date to the contractual maturity date The amounts disclosed in the table are the contractual undiscounted cash flows and may therefore not reconcile to the amounts disclosed on the balance sheet for borrowings derivative financial instruments, provisions and trade and other payables

	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
At 30 June 2013				
Non derivative financial liabilities				
Bonds - USD	125	125	1 291	1 490
Bonds - GBP	41	41	500	462
Obligations under finance leases and other borrowings	11	11	27	144
Trade and other payables	1 457	107	3	-
Provisions	66	4	1	3
Net settled derivatives				
Financial assets	(32)	(32)	(65)	(6)
Gross settled derivatives				
Outflow	1,020	760	1 687	1,381
Inflow	(1 028)	(775)	(1 876)	(1,417)

	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
At 30 June 2012				
Non derivative financial liabilities				
Bonds - USD	107	107	760	1 433
Bonds - GBP	41	41	123	903
Obligations under finance leases and other borrowings	8	8	24	153
Trade and other payables	1 281	86	11	-
Provisions	9	4	1	1
Net settled derivatives				
Financial assets	(32)	(32)	(81)	(28)
Gross settled derivatives				
Outflow	894	391	759	1 255
Inflow	(917)	(397)	(813)	(1,408)

Capital Risk Management

The Group s objectives when managing capital are to endeavour to ensure that the Group has the ability to access capital markets when necessary and to optimise liquidity and operating flexibility through the arrangement of new debt, while seeking to minimise the cost of capital The Group monitors its liquidity requirements regularly and is satisfied that it has access to sufficient liquidity and operating flexibility to meet its capital requirements

The Group manages its short and long-term capital structure by seeking to maintain leverage ratios consistent with a long-term investment grade credit rating (BBB- or better from Standard & Poor's and Baa3 or better from Moody's) The Group's current ratings are BBB+ (Standard & Poor's) and Baa1 (Moody's) The leverage ratios assessed by these rating agencies are those of Net Debt EBITDA and Gross Debt EBITDA Net Debt is defined as total borrowings including the cash flows arising under operating leases and transponder prepayments, less cash and cash equivalents excluding derivatives Gross Debt does not reduce total borrowings by the inclusion of cash and cash equivalents

The Group is also required to maintain a Net Debt EBITDA ratio below 3 00 1 and an EBITDA to Net Interest Payable ratio at above 3 50 1 under the terms of its RCF The RCF definition of Net Debt does not require the inclusion of future operating lease or transponder cash flows

At 30 June 2013, the Net Debt EBITDA ratio as defined by the terms of the RCF was 0 7 1 (2012 0 6 1) and the EBITDA to Net Interest Payable ratio was 13 4 1 (2012 13 7 1)

Notes to the consolidated financial statements

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23. SHARE CAPITAL

	2013 £m	2012 £m
Allotted, called-up and fully paid shares of 50p 1 593 905 182 (2012 1 674 454 881)	797	837

	2013 Number of ordinary shares	2012 Number of ordinary shares
Allotted and fully paid during the year		
Beginning of year	1 674 454 881	1 752 842 599
Shares repurchased and subsequently cancelled	(80 549 699)	(78 387718)
End of year	**1,593,905 182**	**1,674 454,881**

The Company has one class of ordinary shares which carry equal voting rights and no contractual right to receive payment Full details of the Company's share buy-back programme are provided in note 24

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

The number of newly issued shares which may be allocated under the Schemes on any day shall not, when aggregated with the number of newly issued shares which have been allocated in the previous ten years under the Schemes and any other employee share scheme adopted by the Company, exceed such number as represents five percent of the ordinary share capital of the Company in issue immediately prior to that day In determining this limit no account shall be taken of any newly issued shares where the right to acquire the newly issued shares was released, lapsed cancelled or otherwise became incapable of exercise Options and awards which will be satisfied by ESOP shares do not fall within these headroom limits

The share awards outstanding can be summarised as follows

	2013 Number of ordinary shares	2012 Number of ordinary shares
Executive Share Option Scheme options(i)	931,247	2 630 435
Sharesave Scheme options(ii)	7159,954	7238,348
Management LTIP awards(iii)	24 365 112	15 018 148
LTIP awards(iv)	8 844 132	6 462 723
Management Co-Investment LTIP awards(v)	1,975,705	1 869 416
Co-Investment LTIP awards(vi)	2 068 175	1 953,013
	45,344,325	**35 172,083**

(i) Executive Share Option Scheme options
All Executive Share Option Scheme options outstanding at 30 June 2013 and 30 June 2012 have vested No options have been granted under the scheme since 2004

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

(ii) Sharesave Scheme options
All Sharesave Scheme options outstanding at 30 June 2013 and 30 June 2012 have no performance criteria attached, other than the requirement that the employee remains in employment with the Group Options granted under the Sharesave Scheme must be exercised within six months of the relevant award vesting date

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

(iii) Management LTIP awards
All Management LTIP awards outstanding at 30 June 2013 and 30 June 2012 vest only if performance conditions are met Awards granted under the Management LTIP must be exercised within five years of the relevant award vesting date

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

(iv) LTIP awards
All LTIP awards outstanding at 30 June 2013 and 30 June 2012 vest only if performance conditions are met Awards granted under the LTIP must be exercised within five years of the relevant award vesting date

The Company operates the LTIP for Executive Directors and Senior Executives Awards under the scheme are granted in the form of a nil-priced option and are satisfied using market-purchased shares The awards vest in full or in part dependent on the satisfaction of specified performance targets For awards made in 2008 and 2009 (i e awards that vested in 2011) 30% of the award vested dependent on TSR performance over a three year performance period relative to the constituents of the FTSE 100 at the time of grant and the remaining 70% vested dependent on performance against operational targets The TSR performance targets were not applicable to awards made between July 2010 and March 2012 but have been re-introduced for awards granted from July 2012 onwards

(v) Management Co-Investment LTIP awards
All Management Co-Investment LTIP awards outstanding at 30 June 2013 and 30 June 2012 vest only if performance conditions are met Awards granted under the Management Co-Investment LTIP must be exercised within five years of the relevant award vesting date

The Company grants awards to selected employees under the Management Co-Investment LTIP Awards under this scheme mirror the Co-Investment LTIP with the same performance conditions

(vi) Co-Investment LTIP awards
All Co-Investment LTIP awards outstanding at 30 June 2013 and 30 June 2012 vest only if performance conditions are met Awards granted under the Co-Investment LTIP must be exercised within five years of the relevant award vesting date

The Company operates the Co-Investment LTIP award for Executive Directors and Senior Executives Employees who participate in the plan are granted a conditional award of shares based on the amount they have invested in the Company's shares The investment will be matched up to a maximum of 1 5 shares for every share invested subject to a three-year EPS performance condition

For the purposes of the disclosure below the Management LTIP LTIP, Management Co-Investment LTIP and Co-Investment LTIP awards ('Senior Management Schemes") have been aggregated

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

	Executive Scheme		Sharesave Scheme		Senior Management Schemes		Total	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 July 2011	5 583 424	6 65	7 722 365	3 88	33 492 234	0 00	46 798,023	1 43
Granted during the year	-	-	3,533 830	5 08	10 660 219	0 00	14 194 049	1 26
Exercised during the year	(639 882)	5 59	(2 995 574)	2 43	(17 066 707)	0 00	(20 702 163)	0 52
Forfeited during the year	(69,147)	5 86	(985 985)	4 70	(1 782 446)	0 00	(2 837 578)	1 78
Expired during the year	(2,243,960)	7 93	(36 288)	5 25	-	-	(2,280 248)	7 89
Outstanding at 30 June 2012	2 630 435	5 84	7 238 348	4 94	25 303 300	0 00	35 172 083	1 45
Granted during the year	-	-	2 059 022	6 08	15 012 591	0 00	17,071 613	0 73
Exercised during the year	(1 599 820)	5 88	(1 341 667)	4 40	(1 824 435)	0 00	(4,765,922)	3 21
Forfeited during the year	(64 334)	6 04	(795,749)	5 19	(1 238 332)	0 00	(2 098 415)	2 15
Expired during the year	(35 034)	5 30	-	-	-	-	(35 034)	5 30
Outstanding at 30 June 2013	**931 247**	**5 79**	**7,159,954**	**5 34**	**37,253 124**	**0 00**	**45,344,325**	**0 96**

The weighted average market price of the Group's shares at the date of exercise for share options exercised during the year was £7 83 (2012 £7 01) For those exercised under the Executive Scheme it was £7 79 (2012 £7 19) for those exercised under the Sharesave Scheme it was £8 19 (2012 £6 89) and for those exercised under the Senior Management Schemes it was £7 60 (2012 £7 03)

The middle-market closing price of the Company's shares at 28 June 2013 was £7 92 (29 June 2012 £6 97)

The following table summarises information about share awards outstanding at 30 June 2013

	Executive Scheme		Sharesave Scheme		Senior Management Schemes		Total	
Range of exercise prices	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years
£0 00 - £1 00	-	-	-	-	37 253 124	5 9	37 253 124	5 9
£3 00 - £4 00	-	-	410 643	1 1	-	-	410 643	1 1
£4 00 - £5 00	-	-	440,134	1 7	-	-	440 134	1 7
£5 00 - £6 00	485 586	1 1	4 387 409	2 6	-	-	4 872 995	2 5
£6 00 - £7 00	444 163	0 2	1 921,768	3 5	-	-	2,365,931	2 9
£7 00 - £8 00	1 498	0 7	-	-	-	-	1 498	0 7
	931 247	**0 7**	**7 159,954**	**2 7**	**37,253,124**	**5 9**	**45,344,325**	**5 3**

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

	Executive Scheme		Sharesave Scheme		Senior Management Schemes		Total	
Range of exercise prices	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years
£0 00 - £1 00	-	-	-	-	25 303 300	6 0	25,303,300	6 0
£3 00 - £4 00	-	-	578 155	1 6	-	-	578,155	1 6
£4 00 - £5 00	-	-	1 597 612	1 6	-	-	1 597 612	1 6
£5 00 - £6 00	1 318,767	1 6	5 062 581	3 6	-	-	6 381 348	3 2
£6 00 - £7 00	1 310 170	1 1	-	-	-	-	1,310,170	1 1
£7 00 - £8 00	1 498	1 7	-	-	-	-	1 498	1 7
	2,630,435	1 4	7,238,348	3 0	25,303,300	6 0	35,172,083	5 0

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23. SHARE CAPITAL *continued*

The range of exercise prices of the awards outstanding at 30 June 2013 was between nil and £716 (2012 nil and £716) For those awards outstanding under the Executive Scheme it was between £5 03 and £716 (2012 £5 03 and £716) for those outstanding under the Sharesave Scheme it was between £3 72 and £6 08 (2012 £3 72 and £5 65) and for all awards outstanding under the Senior Management Schemes the exercise price was nil (2012 nil)

The following table summarises additional information about the awards exercisable at 30 June 2013 and 30 June 2012

	2013			2012		
	Options exercisable at 30 June	Average remaining contractual life of exercisable options	Weighted average exercise price	Options exercisable at 30 June	Average remaining contractual life of exercisable options	Weighted average exercise price
Executive Scheme	931 247	0 7	5 79	2 630 435	1 4	5 84
Sharesave Scheme	97 457	0 1	4 49	160 403	0 1	3 80
Senior Management Schemes	663 972	3 7	0 00	1 258 950	4 1	0 00
	1,692,676	1 8	3 45	**4,049,788**	2 2	3 95

Information for awards granted during the year

The weighted average fair value of equity-settled share options granted during the year, as estimated at the date of grant, was £5 16 (2012 £5 39) This was calculated using the Black-Scholes share option pricing model except for awards which have market-based performance conditions where a Monte-Carlo simulation model was used and for grants of nil-priced options which were treated as the award of a free share The fair value of nil-priced options granted during the year was measured on the basis of the market-price of the Company's shares on the date of grant, discounted for expected dividends which would not be received over the vesting period of the options

The Monte-Carlo simulation model reflected the historical volatilities of the Company's share price and those of all other companies to which the Company's performance would be compared over a period equal to the vesting period of the awards

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

(i) Sharesave Scheme

The weighted average fair value of equity-settled share awards granted during the year under the Sharesave Scheme, as estimated at the date of grant, was £1 51 (2012 £1 87) This was calculated using the Black-Scholes share option pricing model

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

	2013	2012
Share price	£7 51	£6 88
Exercise price	£6 08	£5 08
Expected volatility	24 0%	28 6%
Expected life	4 0 years	4 5 years
Expected dividends	3 4%	3 4%
Risk-free interest rate	0 4%	1 0%

(ii) Senior Management Schemes

The weighted average fair value of equity-settled share awards granted during the year under the Senior Management Schemes as estimated at the date of grant, was £5 66 (2012 £6 56) The fair value of awards with market-based performance conditions was calculated using a Monte-Carlo simulation model Awards granted as nil-priced options were treated as the award of a free share For all other awards fair value was calculated using the Black-Scholes share option pricing model

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

	2013	2012
Share price	£7 16	£7 04
Exercise price	£0 00	£0 00
Expected volatility	6 3%	-
Expected life	3 0 years	2 1 years
Expected dividends	3 6%	3 3%
Risk-free interest rate	0 0%	-

24. SHAREHOLDERS' EQUITY

	2013 £m	2012 £m
Share capital	797	837
Share premium	1 437	1 437
ESOP reserve	(147)	(112)
Hedging reserve	11	68
Available-for-sale reserve	351	165
Other reserves	439	399
Retained earnings	(1 876)	(1 850)
	1,012	944

Purchase of own equity shares for cancellation

On 29 November 2011, at the Company's AGM, the Company was granted the authority to return £750 million of capital to shareholders via a share buy-back programme (the "November 2011 Authority") This authority was subject to an agreement between the Company and Twenty-First Century Fox Inc (formerly known as News Corporation) (and others) dated 28 July 2011 whereby following any market purchases of shares by the Company Twenty-First Century Fox, Inc would sell to the Company sufficient shares to maintain its percentage shareholding at the same level as applied prior to those market purchases The price payable to Twenty-First Century Fox Inc would be the price payable by the Company in respect of the relevant market purchases (the "2011 Share Buy-back Agreement")

At the Company's AGM on 1 November 2012, the Company was granted the authority to return a further £500 million of capital to shareholders via a share buy-back programme (the "November 2012 Authority") This authority was subject to an agreement between the Company and Twenty-First Century Fox Inc (and others) dated 28 July 2012 on substantially the same terms as the 2011 Share Buy-back Agreement

During the year, the Company purchased and subsequently cancelled 80 549 699 ordinary shares at an average price of £775 per share with a nominal value of £40 million for a consideration of £627 million Consideration included stamp duty and commission of £3 million This represents 5% of called-up share capital at the beginning of the period Of these purchases the Company purchased and subsequently cancelled, 31 525,314 ordinary shares from Twenty-First Century Fox Inc at an average price of £775 per share with a nominal value of £16 million for a consideration of £245 million Consideration included stamp duty of £1 million

During the prior year the Company purchased and subsequently cancelled, 78 387718 ordinary shares at an average price of £6 92 per share with a nominal value of £39 million, for a total consideration of £546 million Consideration included stamp duty and commission of £3 million This represented 4% of called-up share capital at the beginning of the period Of these purchases, the Company purchased and subsequently cancelled, 30,679,157 ordinary shares from Twenty-First Century Fox, Inc at an average price of £6 92 per share with a nominal value of £15 million for a consideration of £213 million Consideration included stamp duty of £1 million

The following table provides information about purchases of equity shares by the company including purchases by the Group s ESOP, during the fiscal year

Period	Total number of shares purchased(i)	Average price paid per share £	Total capital returned under the November 2011 Authority £m(i)	Total capital returned under the November 2012 Authority £m(i)	Capital authorised to be returned under the November 2011 Authority £m(i)(ii)	Capital authorised to be returned under the November 2012 Authority £m(i)
July	1 269 480	693	9	-	198	-
August	9,073 208	742	67	-	131	-
September	9,904 203	742	74	-	57	-
October	4 261 576	736	31	-	26	-
November	23,509 002	761	4	106	-	394
December	15 809 283	768	-	121	-	273
January	-	-	-	-	-	273
February	2,029 171	814	-	17	-	256
March	728 450	867	-	6	-	250
April	4 909 090	858	-	42	-	208
May	17 234 709	815	-	141	-	67
June	821,527	777	-	6	-	61
Total for the year ended 30 June 2013	**89 549 699**	**774**	**185**	**439**	**-**	**61**

(i) All share purchases are included in the month of settlement

(ii) The November 2011 Authority expired on 1 November 2012 Accordingly no more repurchases can take place under this authority

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24. SHAREHOLDERS' EQUITY *continued*

Share premium and special reserve

On 10 December 2003, the High Court approved a reduction in the Company's share premium account of £1120 million as approved by the Company's shareholders at the AGM held on 14 November 2003 This amount was equal to the Company-only profit and loss account reserve deficit at 30 June 2003 As part of the application, the Company's balance sheet at 30 September 2003 was required to be presented At that date the deficit on the Company-only profit and loss account reserve had reduced by £14 million since 30 June 2003 to £1,106 million As a condition of the reduction, the reduction in the share premium account of £1,120 million was permitted to be offset against the profit and loss account reserve by the amount of the deficit at 30 September 2003 The excess of £14 million was credited to a special reserve which is included in other reserves, and, under the terms of the reduction will remain undistributable until all the creditors of the Company and its guarantors (as at 10 December 2003) are paid

ESOP reserve

The cost of the Company's ordinary shares held by the Group s ESOP is treated as a deduction in arriving at total shareholders' equity The movement in the ESOP reserve was as follows

	Number of ordinary shares	Average price paid per share	£m
At 1 July 2011	13 832 609	£775	107
Share options exercised during the year	(20 702 163)	£755	(156)
Shares purchased by the ESOP during the year	23 162 899	£693	161
At 30 June 2012	**16 293 345**	**£6 85**	**112**
Share options exercised during the year	(4 765 922)	£714	(34)
Shares purchased by the ESOP during the year	9 000 000	£769	69
At 30 June 2013	**20,527,423**	**£715**	**147**

Hedging reserve

Changes in the fair values of derivatives that are designated as cash flow hedges are initially recognised in the hedging reserve, and subsequently recognised in the income statement when the related hedged items are recognised in the income statement In addition deferred taxation relating to these derivatives is also initially recognised in the hedging reserve prior to transfer to the income statement

Available-for-sale reserve

Available-for-sale investments are carried at fair value where this can be reliably measured with movements in the fair value recognised directly in the available-for-sale reserve At 30 June 2013 the Group s available-for-sale reserve was £351 million (2012 £165 million)

Other reserves

The Group s other reserves include a capital redemption reserve, a merger reserve, a foreign currency translation reserve and a special reserve The capital redemption reserve was £174 million as at 30 June 2013 (2012 £134 million) The merger reserve was £222 million as at 30 June 2013 (2012 £222 million) The special reserve was £14 million as at 30 June 2013 (2012 £14 million) The foreign currency translation reserve was £29 million as at 30 June 2013 (2012 £29 million)

Merger reserve

The merger reserve was created in accordance with the merger relief provisions under section 131 of the Companies Act 1985 (as amended) and section 612 of the Companies Act 2006 relating to the accounting for business combinations involving the issue of shares at a premium Merger relief provided relief from the requirement to create a share premium account in a parent company's balance sheet In preparing consolidated financial statements, the amount by which the fair value of the shares issued exceeded their nominal value was recorded within a merger reserve on consolidation rather than in a share premium account This merger reserve was retained upon transition to IFRS as allowed under UK law

The merger reserve, which is included in other reserves, was created as a result of the purchase by the Group of interests in two entities SIG was purchased on 12 July 2000, where consideration was paid by the issue of equity shares in the Company BiB was purchased between 28 June 2001 and 11 November 2002, where consideration was paid by the issue of equity shares in the Company At 30 June 2013 the Group s merger reserve was £222 million (2012 £222 million)

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before tax to cash generated from operations

	2013 £m	2012 £m
Profit before tax	1 257	1,189
Depreciation and impairment of property plant and equipment	176	179
Amortisation and impairment of intangible assets	202	165
Share-based payment expense	80	66
Net finance costs	80	93
Share of results of joint ventures and associates	(46)	(39)
	1,749	1 653
Decrease (increase) in trade and other receivables	35	(32)
Increase in inventories	(93)	(81)
Increase in trade and other payables	136	175
Increase in provisions	52	25
Decrease in derivative financial instruments	(2)	(3)
Cash generated from operations	1,877	1 737

26. CONTRACTED COMMITMENTS, CONTINGENCIES AND GUARANTEES

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

	Year ending 30 June 2014 £m	Year ending 30 June 2015 £m	Year ending 30 June 2016 £m	Year ending 30 June 2017 £m	Year ending 30 June 2018 £m	After 5 years £m	Total at 30 June 2013 £m	Total at 30 June 2012 £m
Television programme rights(i)	1 488	1 387	1199	356	212	121	4 763	5102
Set-top boxes and related equipment	202	-	-	-	-	-	202	182
Third party payments(ii)	62	56	50	21	-	-	189	210
Transponder capacity(iii)	82	83	79	75	68	247	634	683
Property, plant and equipment	17	-	-	-	-	-	17	27
Intangible assets(iv)	23	18	28	19	19	5	112	144
Smartcards(iv)	42	44	45	45	45	11	232	276
Other	262	111	84	70	41	6	574	337
	2,178	1,699	1,485	586	385	390	6,723	6,961

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

(i) At 30 June 2013 the Group had minimum television programming rights commitments of £4 763 million (2012 £5102 million) of which £506 million (2012 £376 million) related to commitments payable in US dollars for periods of up to seven years (2012 six years) Assuming that movie subscriber numbers remain unchanged from current levels an additional £531 million (US$808 million) of commitments (2012 £420 million (US$652 million)) would also be payable in US dollars relating to price escalator clauses The pound sterling television programme rights commitments include similar price escalation clauses that would result in additional commitments of £163 million (2012 £9 million) if subscriber numbers were to remain at current levels

(ii) The third party payment commitments are in respect of distribution agreements for the television channels owned and broadcast by third parties retailed by the Group to retail and commercial subscribers ("Sky Distributed Channels) and are for periods of up to five years (2012 five years) The extent of the commitment is largely dependent upon the number of retail subscribers to the relevant Sky Distributed Channels and in certain cases upon inflationary increases If both the retail subscriber levels to these channels and the rate payable for each Sky Distributed Channel were to remain at current levels subject to inflationary increases the additional commitment would be £805 million (2012 £463 million)

(iii) Transponder capacity commitments are in respect of the Astra Eutelsat and Telenor Satellite Broadcasting AS satellites that the Group uses for digital transmissions to both retail subscribers and cable operators The commitments are for periods of up to twelve years (2012 thirteen years)

(iv) Commitments in relation to the provision of smartcards Smartcards under development are included within intangible assets The amounts included above are the expected ongoing smartcard costs based on forecast customer levels

b) Contingencies and guarantees

Certain subsidiaries of the Company have agreed to provide additional funding to several of their investments in limited and unlimited companies and partnerships, in accordance with funding agreements Payment of this additional funding would be required if requested by the investees in accordance with the funding agreements The maximum potential amount of future payments which may be required to be made by the subsidiaries of the Company to their investments, in both limited and unlimited companies and partnerships under the undertakings and additional funding agreements is £25 million (2012 £30 million)

The Group has guarantees in place relating to the Group s borrowings see note 20

Competition Appeal Tribunal (CAT)

On 8 August 2012, the Competition Appeal Tribunal (the CAT") issued its judgment in the appeals against Ofcom's decision to impose wholesale must-offer obligations on Sky (the "Pay TV Judgment") The CAT found that Ofcom s core competition concerns were unfounded and

Notes to the consolidated financial statements

continued

26. CONTRACTED COMMITMENTS, CONTINGENCIES AND GUARANTEES *continued*

that accordingly Sky's appeal must be allowed On 26 April 2013, BT was granted permission to appeal the Pay TV Judgment in the Court of Appeal Pending determination of BT's appeal, the Court of Appeal has stayed withdrawal of the WMO obligations and distribution of the monies paid by relevant wholesale customers into escrow on an interim basis (being the difference between the maximum price Sky may charge for Sky Sports 1 and Sky Sports 2 under the WMO obligations and Sky's rate card prices for the channels)

At 30 June 2013 £31 million of cash is being held in the escrow account

Ofcom determination

Included within direct networks costs for the year ended 30 June 2013 is a credit of £32 million in relation to a credit note received from BT following an Ofcom determination which requires BT to repay monies to Sky for overcharged-for Ethernet services (backhaul) between 2006/07 and 2009/10 Sky, BT and others have appealed Ofcom's determination in the CAT

27. OPERATING LEASE COMMITMENTS

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

	2013 £m	2012 £m
Within one year	49	49
Between one and two years	42	39
Between two and three years	35	32
Between three and four years	37	27
Between four and five years	18	20
After five years	45	59
	226	226

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

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

	2013 £m	2012 £m
Within one year	2	6
Between one and two years	2	3
Between two and three years	2	2
Between three and four years	2	2
Between four and five years	1	2
After five years	5	6
	14	21

Sub-lease rentals primarily relate to property leases

28. TRANSACTIONS WITH RELATED PARTIES AND MAJOR SHAREHOLDERS

a) Entities with joint control or significant influence

During the year the Group conducted business transactions with companies that form part of the Twenty-First Century Fox, Inc group (formerly known as News Corporation) a major shareholder in the Company

Transactions with related parties and amounts outstanding in relation to those transactions and with related parties at 30 June are as follows

	2013 £m	2012 £m
Supply of goods or services by the Group	89	79
Purchases of goods or services by the Group	(156)	(199)
Amounts owed to the Group	7	12
Amounts owed by the Group	(102)	(98)

At 30 June 2013 the Group had expenditure commitments of £97 million in relation to transactions with related parties and with related parties (2012 £462 million) of which £97 million (2012 £58 million) related to minimum television programming rights commitments and nil (2012 £404 million) related to expected ongoing smartcard costs

Goods and services supplied

During the year, the Group supplied set-top boxes programming, airtime transmission marketing, consultancy services customer relationship management services and a licence to use the Sky brand to Twenty-First Century Fox Inc companies

Purchases of goods and services and certain other relationships

During the year the Group purchased programming, digital equipment, smartcards and encryption services, set-top box technologies advertising and IT services from Twenty-First Century Fox, Inc companies

There is an agreement between Twenty-First Century Fox Inc (formerly known as News Corporation) and the Group pursuant to which it was agreed that, for so long as Twenty-First Century Fox Inc directly or indirectly holds an interest of 30% or more in the Group, Twenty-First Century Fox Inc will not engage in the business of satellite broadcasting in the UK or Ireland

Share buy-back programme

During the year, the Company purchased, and subsequently cancelled 31 525,314 ordinary shares held by Twenty-First Century Fox, Inc as part of its share buy-back programme For further details see note 24

b) Joint ventures and associates

Transactions between the Company and its subsidiaries which are related parties have been eliminated on consolidation and are not disclosed in this note Transactions between the Group and its joint ventures and associates are disclosed below

Transactions between the Company and its subsidiaries, joint ventures and associates are disclosed in the Company s separate financial statements

	2013 £m	2012 £m
Supply of services by the Group	22	24
Purchases of goods or services by the Group	(66)	(67)
Amounts owed by joint ventures and associates to the Group	9	15
Amounts owed to joint ventures and associates by the Group	(9)	(10)

Services supplied are primarily the provision of transponder capacity marketing, airtime sales and support services Purchases represent fees payable for channel carriage Amounts owed by joint ventures and associates include £1 million (2012 £7 million) relating to loan funding.

These loans bear interest at a rate of one month LIBOR plus 1% The maximum amount of loan funding outstanding in total from joint ventures and associates during the year was £7 million (2012 £16 million)

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

Consequently the Group was not exposed to any of the net gains or losses on these forward contracts The face value of forward exchange contracts with AETN UK that had not matured as at 30 June 2013 was £8 million (2012 £2 million)

During the year US$4 million (2012 US$3 million) was paid to the joint venture upon maturity of forward exchange contracts and US$nil (2012 US$14 million) was received from the joint venture upon maturity of forward exchange contracts

During the year, £2 million (2012 £2 million) was received from the joint venture upon maturity of forward exchange contracts, and £3 million (2012 £7 million) was paid to the joint venture upon maturity of forward exchange contracts

During the year, €4 million (2012 €nil) was received from the joint venture upon maturity of forward exchange contracts and €nil (2012 €2 million) was paid to the joint venture upon maturity of forward exchange contracts

At 30 June 2013 the Group had minimum expenditure commitments of £4 million (2012 £1 million) with its joint ventures and associates

c) Other transactions with related parties
A close family member of one Director of the Company runs Freud Communications Limited (Freud) which has provided external support to the press and publicity activities of the Group During the year the Group incurred expenditure amounting to £1 million (2012 £1 million) with Freud At 30 June 2013 there was less than £1 million (2012 less than £1 million) due to Freud

In addition to the foregoing the Group has engaged in a number of transactions with companies of which some of the Company's Directors are also directors These do not meet the definition of related party transactions

d) Key management
The Group has a related party relationship with the Directors of the Company At 30 June 2013 there were 14 (2012 14) members of key management all of whom were Directors of the Company Key management compensation is disclosed in note 6b

29. ACQUISITION OF SUBSIDIARY

O2 consumer broadband and fixed-line telephony business
On 30 April 2013 the Group completed the purchase of the O2 consumer broadband and fixed-line telephony business from Telefónica UK, comprising 100% of the share capital of Be Un Limited, subsequently renamed Sky Home Communications Limited ("the acquisition") The acquisition was made in order to increase the scale of the Group s existing home communications operation

Total consideration comprised £180 million of cash relating to the purchase price, contingent consideration of £20 million and a provisional £5 million cash adjustment relating to working capital and active subscribers The provisional working capital and active subscribers adjustment was estimated by Telefónica UK and paid at completion the process of verification of and agreement on these estimates is ongoing

	Recognised fair values £m
Recognised amounts of identifiable assets acquired and liabilities assumed	
Intangible assets	137
Property plant and equipment	25
Trade and other receivables	7
Trade and other payables	(3)
Deferred tax liability	(10)
	156
Goodwill	49
Satisfied by consideration	
Cash - purchase price	180
Contingent consideration arrangement	20
Cash - estimated working capital adjustment and active subscribers adjustment	5
Net cash outflow arising on purchase	
Cash paid	185

All amounts in the above table are provisional

The fair value of the financial assets acquired includes trade receivables with a fair value and gross contractual value of £6 million The best estimate at the acquisition date of the contractual cash flows not likely to be collected was less than £1 million

Goodwill of £49 million arising from the acquisition reflects buyer-specific synergies and the strategic value of accelerating the Group s development in the UK broadband market None of the goodwill recognised is expected to be deductible for income tax purposes

The contingent consideration is payable dependent upon the successful delivery and completion of the customer migration process by Telefónica UK The potential undiscounted amount of all future payments that the Group could be required to make under the contingent consideration arrangement is between nil and £20 million £20 million has been recognised as the fair value of this arrangement at the acquisition date

Acquisition-related costs included in operating expense in the Group's consolidated income statement for the year ended 30 June 2013 amounted to £15 million and comprise principally of costs relating to the integration of the acquired customer base

For the period between the date of purchase and 30 June 2013 the acquisition contributed £15 million to the Group s revenue and less than £1 million to the Group s profit before tax If the Group had completed the purchase on the first day of the financial year, it is estimated that the acquisition would have contributed £90 million to Group revenue and an immaterial amount to the Group s profit for the year

30 EVENTS AFTER THE REPORTING PERIOD

On 25 July 2013 the Board agreed to seek the necessary approvals to return a further £500 million of capital to shareholders via a share buy-back programme Shareholder approvals will be sought at the Company's AGM on 22 November 2013 The Company has entered into an agreement with Twenty-First Century Fox, Inc. (formerly known as News Corporation) (and others) under which following any market purchases of shares by the Company Twenty-First Century Fox, Inc. will sell to the Company sufficient shares to maintain its percentage shareholding at

Notes to the consolidated financial statements

continued

30 EVENTS AFTER THE REPORTING PERIOD *continued*

the same level as applied prior to those market purchases The price payable to Twenty-First Century Fox, Inc will be the price payable by the Company in respect of the relevant market purchases The agreement is conditional on the appropriate shareholder approvals being granted The effect of the agreement is to provide that there will be no change in Twenty-First Century Fox, Inc s economic or voting interests in the Company as a result of the share buy-back programme

31 GROUP INVESTMENTS

The significant investments of the Company which principally affect the consolidated results and total assets of the Group are as follows

Name	Country of incorporation	Description and proportion of shares held (%)	Principal activity
Subsidiaries			
Direct holdings of the Company			
British Sky Broadcasting Limited	United Kingdom	10 002 002 ordinary shares of £1 each (100%)	Operation of pay television broadcasting and home communications services in the UK and Ireland
BSkyB Finance UK plc	United Kingdom	50 000 ordinary shares of £1 each (100%)	Finance company
Subsidiaries			
Indirect holdings of the Company			
Sky Subscribers Services Limited	United Kingdom	3 ordinary shares of £1 each (100%)	Provision of ancillary functions supporting the pay television broadcasting residential broadband and telephone operations of the Group
Sky Holdings Limited	United Kingdom	600 ordinary shares of £1 each (100%)	Holding company
Sky In-Home Service Limited	United Kingdom	1 576 000 ordinary shares of £1 each (100%)	Supply installation and maintenance of satellite television receiving equipment
BSkyB Telecommunications Services Limited	United Kingdom	5 821 764 ordinary shares of £1 each (100%)	Management of the network assets in the UK
Sky Ventures Limited	United Kingdom	912 ordinary shares of £1 each (100%)	Holding company
The Cloud Networks Limited	United Kingdom	30 583 988 shares of £0 00025 per share (100%)	Provision of telecommunications
Hestview Limited	United Kingdom	108 ordinary shares of £1 each (100%)	Provision of sports betting activities
Bonne Terre Limited	Guernsey	2,504 ordinary shares of £1 each (100%)	Provision of gaming activities
Sky Home Communications Limited	United Kingdom	9 528 124 ordinary shares of £1 each (100%)	Provision of residential broadband and telephone operations
Joint ventures and associates			
Nickelodeon UK Limited (i)	United Kingdom	104 B Shares of £0 01 each (40%)	Transmission of children s television channels
AETN UK	United Kingdom	50 000 A Shares of £1 each (50%)	Transmission of history biography crime and investigation television programming
Paramount UK Partnership (i)(iii)	United Kingdom	Partnership interest (25%)	Transmission of general entertainment comedy channels
Australian News Channel Pty Limited	Australia	1 ordinary share of AUD$1 (33 33%)	Transmission of news and business channels
NGC Network International LLC	United States of America	Partnership interest (21%)	Transmission of natural history and adventure channels
NGC Network Latin America LLC	United States of America	Partnership interest (21%)	Transmission of natural history and adventure channels
Attheraces Holdings Limited (ii)	United Kingdom	1 502 ordinary shares of £1 each (45 9%), 20 Recoupment Shares of £0 55 each	Transmission of a horse racing channel and related online activities
MGM Channel (UK) Limited	United Kingdom	50 ordinary shares of £1 each (50%)	Transmission of classic movies in HD
Sky News Arabia FZ-LLC	United Arab Emirates	26 666 666 shares of US$1 each (50%)	Transmission of Arabic News in the MENA region (Middle East and North Africa)
Investments			
ITV Plc (i)	United Kingdom	291 684 730 ordinary shares of £0 10 each (7 42%)	Transmission of free-to-air channels

Notes

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

(ii) These entities have an accounting reference date of 30 September

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

(iv) This note sets out an abbreviated list of the subsidiaries of the Company A full list will be filed with Companies House in accordance with section 410 of the Companies Act 2006

The following companies are exempt from the requirements relating to the audit of individual accounts for the year/period ended 30 June 2013 by virtue of section 479A of the Companies Act 2006 BSkyB Finance Limited (02906994), Kidsprog Limited (02767224) Parthenon Media Group Limited (06944197) SATV Publishing Limited (01085975) Sky Holdings Limited (05585009), Sky IP International Limited (07245844) Sky Television Limited (01518707) and Sky New Media Ventures Limited (03879726)

32. BRITISH SKY BROADCASTING GROUP PLC COMPANY ONLY FINANCIAL STATEMENTS

Company Income Statement
for the year ended 30 June 2013

	Notes	2013 £m	2012 £m
Revenue		**214**	**200**
Operating expense		(40)	(20)
Operating profit		**174**	**180**
Dividend income from subsidiaries	O	947	874
Investment income	B	58	56
Finance costs	B	(61)	(63)
Profit before tax	C	**1,118**	**1,047**
Taxation	D	(30)	(45)
Profit for the year attributable to equity shareholders		**1088**	**1,002**

The accompanying notes are an integral part of this income statement

Company Statement of Comprehensive Income
for the year ended 30 June 2013

	2013 £m	2012 £m
Profit for the year attributable to equity shareholders	**1,088**	**1,002**
Other comprehensive income		
Amounts recognised directly in equity		
Gain on cash flow hedges	3	12
Tax on cash flow hedges	(1)	(3)
	2	9
Amounts reclassified and reported in the income statement		
Loss on cash flow hedges	(28)	(8)
Tax on cash flow hedges	7	2
	(21)	(6)
Other comprehensive (loss) income for the year (net of tax)	**(19)**	**3**
Total comprehensive income for the year attributable to equity shareholders	**1,069**	**1,005**

All results relate to continuing operations

Notes to the consolidated financial statements

continued

32. BRITISH SKY BROADCASTING GROUP PLC COMPANY ONLY FINANCIAL STATEMENTS *continued*

Company Balance Sheet
as at 30 June 2013

	Notes	2013 £m	2012 £m
Non-current assets			
Investments in subsidiaries	E	8143	8272
Other receivables	G	3	3
Derivative financial assets	J	341	384
		8487	8659
Current assets			
Other receivables	G	2,967	1,652
Cash and cash equivalents		-	1
		2967	1653
Total assets		**11454**	**10312**
Current liabilities			
Other payables	I	3,434	2774
Non-current liabilities			
Borrowings	H	1,718	1211
Derivative financial liabilities	J	176	220
Deferred tax liabilities	F	1	3
		1895	1434
Total liabilities		**5,329**	**4,208**
Share capital	L	797	837
Share premium	L	1437	1437
Reserves		3891	3830
Total equity attributable to equity shareholders		**6,125**	**6,104**
Total liabilities and shareholders' equity		**11,454**	**10,312**

The accompanying notes are an integral part of this balance sheet

These financial statements of British Sky Broadcasting Group plc, registered number 02247735, have been approved by the Board of Directors on 25 July 2013 and were signed on its behalf by

Jeremy Darroch
Chief Executive Officer

Andrew Griffith
Chief Financial Officer

Company Cash Flow Statement
for the year ended 30 June 2013

	Notes	2013 £m	2012 £m
Cash flows from operating activities			
Cash generated from operations	M	-	-
Net cash from operating activities		-	-
Cash flows from financing activities			
Proceeds from the exercise of share options		15	10
Loan to subsidiaries		(16)	(13)
Net cash used in financing activities		**(1)**	**(3)**
Net decrease in cash and cash equivalents		**(1)**	**(3)**
Cash and cash equivalents at the beginning of the year		1	4
Cash and cash equivalents at the end of the year		**-**	**1**

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

Company Statement of Changes in Equity
for the year ended 30 June 2013

	Share capital £m	Share premium £m	Special reserve £m	Capital redemption reserve £m	Capital reserve £m	ESOP reserve £m	Hedging reserve £m	Retained earnings £m	Total Shareholders equity £m
At 1 July 2011	**876**	**1,437**	**14**	**95**	**844**	**(107)**	**3**	**2,988**	**6 150**
Profit for the year	-	-	-	-	-	-	-	1 002	1 002
Recognition and transfer of cash flow hedges	-	-	-	-	-	-	4	-	4
Tax on items taken directly to equity	-	-	-	-	-	-	(1)	-	(1)
Total comprehensive income for the year	-	-	-	-	-	-	3	1,002	1,005
Share-based payment	-	-	-	-	-	(5)	-	(80)	(85)
Share buy-back programme (see note 24)									
- Purchase of own shares for cancellation	(39)	-	-	39	-	-	-	(546)	(546)
- Financial liability for close period purchases	-	-	-	-	-	-	-	(10)	(10)
Dividends	-	-	-	-	-	-	-	(410)	(410)
At 30 June 2012	**837**	**1 437**	**14**	**134**	**844**	**(112)**	**6**	**2 944**	**6,104**
Profit for the year	-	-	-	-	-	-	-	1,088	1 088
Recognition and transfer of cash flow hedges	-	-	-	-	-	-	(25)	-	(25)
Tax on items taken directly to equity	-	-	-	-	-	-	6	-	6
Total comprehensive income for the year	-	-	-	-	-	-	(19)	1,088	1,069
Share-based payment	-	-	-	-	-	(35)	-	61	26
Share buy-back programme (see note 24)									
- Purchase of own shares for cancellation	(40)	-	-	40	-	-	-	(617)	(617)
- Financial liability for close period purchases	-	-	-	-	-	-	-	(16)	(16)
Dividends	-	-	-	-	-	-	-	(441)	(441)
At 30 June 2013	**797**	**1,437**	**14**	**174**	**844**	**(147)**	**(13)**	**3 019**	**6,125**

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

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

Notes to the consolidated financial statements

continued

32. BRITISH SKY BROADCASTING GROUP PLC COMPANY ONLY FINANCIAL STATEMENTS *continued*

A Accounting policies

British Sky Broadcasting Group plc (the Company") is a limited liability company incorporated in the United Kingdom and registered in England and Wales

i) Basis of preparation

The Company financial statements have been prepared in accordance with IFRS consistent with the accounting policies set out in note 1 of the Group s consolidated financial statements

ii) Revenue

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 from licensing the Company's brand name asset to subsidiaries This revenue is recognised on an accruals basis under the terms of relevant licensing agreements

iii) Investment in subsidiaries

An investment in a subsidiary is recognised at cost less any provision for impairment As permitted by section 133 of the Companies Act 2006 where the relief afforded under section 131 of the Companies Act 2006 applies, cost is the aggregate of the nominal value of the relevant number of the Company s shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings

B Investment income and finance costs

	2013 £m	2012 £m
Investment income		
Investment income from subsidiaries	58	56

	2013 £m	2012 £m
Finance costs		
– Interest payable and similar charges		
Revolving Credit Facility ("RCF)	(2)	(8)
Guaranteed Notes (see note H)	(76)	(67)
	(78)	(75)
– Other finance income (expense)		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	16	12
(Loss) gain arising on derivatives in a designated fair value hedge accounting relationship	(22)	42
Gain (loss) arising on adjustment for hedged item in a designated fair value hedge accounting relationship	23	(42)
	17	12
	(61)	(63)

C Profit before taxation

Employee benefits

The Company had nil employees (2012 nil) during the year

Key management compensation

Amounts paid to the Directors of the Company are disclosed in the Report on Directors' remuneration on pages 48 to 56

D Taxation

i) Taxation recognised in the income statement

	2013 £m	2012 £m
Current tax expense		
Current year	37	46
Adjustment in respect of prior years	(11)	-
Total current tax charge	**26**	**46**
Deferred tax expense		
Origination and reversal of temporary differences	4	3
Adjustment in respect of prior years	-	(4)
Total deferred tax charge (credit)	**4**	**(1)**
Taxation	30	45

ii) Deferred tax recognised directly in equity

	2013 £m	2012 £m
Deferred tax (credit) charge on hedging activities	(6)	1

iii) Reconciliation of effective tax rate

The tax expense for the year is lower (2012 lower) than the expense that would have been charged using the blended rate of corporation tax in the UK (23 75%) applied to profit before tax The applicable enacted or substantively enacted effective rate of UK corporation tax for the year was 23 75% (2012 25 5%) The differences are explained below

	2013 £m	2012 £m
Profit before tax	1118	1047
Profit before tax multiplied by blended rate of corporation tax in the UK of 23 75% (2012 25 5%)	266	267
Effects of		
Non-taxable income	(225)	(224)
Non-deductible expenditure	-	6
Over provision in respect of prior years	(11)	(4)
Taxation	**30**	**45**

All taxation relates to UK corporation tax

E Investments in subsidiaries

	£m
Cost	
At 1 July 2011	9,061
Additions	703
Disposal	(487)
At 30 June 2012	9 277
Additions	573
Disposal	(702)
At 30 June 2013	9,148
Provision	
At 1 July 2011 30 June 2012 and 30 June 2013	1 005
Carrying amounts	
At 1 July 2011	8 056
At 30 June 2012	8 272
At 30 June 2013	8,143

During the year, the Company purchased 100% of the share capital of BSkyB LLU Assets Limited from its direct subsidiary BSkyB Finance UK Plc The Company subsequently transferred its investment in BSkyB LLU Assets Limited to its direct subsidiary British Sky Broadcasting Limited

During the prior year the Company transferred its investment in British Interactive Broadcasting Holdings Limited to its subsidiary British Sky Broadcasting Limited Following this transfer British Interactive Broadcasting Holdings Limited was put into liquidation

See note 31 for a list of significant investments of the Company

F Deferred tax

Recognised deferred tax liabilities

	Financial instruments temporary differences £m
At 1 July 2011	(3)
Credit to income	1
Charge to equity	(1)
At 30 June 2012	(3)
Charge to income	(4)
Credit to equity	6
At 30 June 2013	(1)

At 30 June 2013, a deferred tax asset of £278 million (2012 £299 million) has not been recognised in respect of capital losses related to the Group's holding in KirchPayTV on the basis that utilisation of these temporary differences is not probable At 30 June 2013 the Company has also not recognised a deferred tax asset of £7 million (2012 £8 million) relating to capital losses and provisions in respect of football club investments on the basis that it is not probable that they will be utilised

G Other receivables

	2013 £m	2012 £m
Amounts receivable from subsidiaries	2 966	1 652
Prepayments and other receivables	1	-
Current other receivables	2,967	1 652
Non-current prepayment	3	3
Total other receivables	2 970	1 655

On 26 November 2012, the Company issued US$800 million Guaranteed Notes with a coupon rate of 3 125% and loaned proceeds to British Sky Broadcasting Limited British Sky Broadcasting Limited pays the same annual effective interest rate to the Company

On 5 March 2009, the Company made a loan of £694 million to British Sky Broadcasting Limited which is repayable on demand and bears interest at a rate of 6 month LIBOR plus 0 75% In October 2009 the Company assigned £604 million of this loan to settle payables with BSkyB Finance Limited

On 13 January 2009, the Company made a loan of £252 million to British Sky Broadcasting Limited This loan bears interest at a rate of 6 month LIBOR plus 1 00% and is repayable on demand

On 13 January 2009 the Company made a loan of £91 million to Sky In-Home Service Limited This loan is repayable on demand and bears interest at a rate of 6 month LIBOR plus 1 00%

On 24 November 2008, the Company issued US$600 million Guaranteed Notes with a coupon rate of 9 5% and loaned the proceeds to BSkyB Finance Limited BSkyB Finance Limited pays the same annual effective interest rate to the Company

On 29 June 2008, the Company entered into loan agreements with British Sky Broadcasting Limited for £143 million and £109 million both bearing interest at a rate of 1 month LIBOR plus 0 75% These loans are repayable on demand

On 29 June 2008, Sky Ventures Limited transferred its £11 million loan receivable from BSkyB Finance Limited to the Company This loan bears interest at a rate of 1 month LIBOR plus 0 75% and is repayable on demand

On 29 June 2008 the Company entered into a RCF with BSkyB Finance Limited worth £40 million Amounts loaned under this facility bear interest at a rate of 1 month LIBOR plus 0 75% and are repayable on demand

On 15 February 2008, the Company issued US$750 million Guaranteed Notes with a coupon rate of 6 100% and loaned the proceeds to British Sky Broadcasting Limited British Sky Broadcasting Limited pays the same annual effective interest rate to the Company

All other amounts receivable from subsidiaries are non-interest bearing and are also repayable on demand

The Directors consider that the carrying amount of other receivables approximates their fair values

Notes to the consolidated financial statements

continued

32 BRITISH SKY BROADCASTING GROUP PLC COMPANY ONLY FINANCIAL STATEMENTS *continued*

The Company's credit risk is primarily attributable to its other receivables The majority of its other receivables balance is due from British Sky Broadcasting Limited The risk of this entity defaulting on amounts owed is considered low due to its successful operation of pay television broadcasting and home communications services in the UK and Ireland

H Borrowings

	2013 £m	2012 £m
Non-current borrowings		
US$750 million of 6 100% Guaranteed Notes repayable in February 2018	498	495
US$582 8 million of 9 500% Guaranteed Notes repayable in November 2018	404	420
US$800 million of 3 125% Guaranteed Notes repayable in November 2022	520	-
£300 million of 6 000% Guaranteed Notes repayable in May 2027	296	296
	1,718	1 211

See note 20 for details of the Company's Guaranteed Notes and RCF and note 22 for details of Capital Risk Management

I Other payables

	2013 £m	2012 £m
Other payables		
Amounts owed to subsidiary undertakings	3 398	2 746
Amounts owed to other related parties	6	4
Other	10	6
Accruals	20	18
	3 434	2 774

Amounts payable to subsidiaries are non-interest bearing and repayable on demand The balance comprises £1 898 million of non-interest bearing loans (2012 £1,271 million) and £1 500 million of other payables (2012 £1 475 million) The Directors consider that the carrying amount of other payables approximates their fair values

J Derivatives and other financial instruments

Fair values

Set out below is a comparison of the carrying values and the estimated fair values of the Company's financial assets and financial liabilities at 30 June 2013 and 30 June 2012

	2013 Carrying value £m	2013 Fair value £m	2012 Carrying value £m	2012 Fair value £m
Financial assets and liabilities held or issued to finance the Company's operations				
Quoted bond debt	(1,718)	(1 915)	(1 211)	(1 411)
Derivative financial instruments	165	165	164	164
Other payables and receivables	(467)	(467)	(1 122)	(1 122)

The fair values of financial assets and financial liabilities are determined as detailed in note 21 and all items held at fair value are classified as Level 2 in the fair value hierarchy

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

	2013				2012			
	Asset		Liability		Asset		Liability	
	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m
Fair value hedges								
Interest rate swaps	65	505	-	-	87	494	-	-
Cash flow hedges								
Cross-currency swaps	86	746	-	47	80	290	-	-
Derivatives not in a formal hedge relationship								
Interest rate swaps	43	605	(42)	345	54	479	(54)	459
Cross-currency swaps	147	725	(134)	1 018	163	724	(166)	1 017
Total	**341**	**2,581**	**(176)**	**1,410**	**384**	**1 987**	**(220)**	**1,476**

Note 21 provides further details of the Group s derivative and other financial instruments

The maturity of the derivative financial instruments is shown below

	2013		2012	
	Asset £m	Liability £m	Asset £m	Liability £m
Between two and five years	242	(112)	99	(99)
In more than five years	99	(64)	285	(121)
Total	**341**	**(176)**	**384**	**(220)**

K Financial risk management

Interest rate and foreign exchange risk management

The Company manages its exposure to interest rates and foreign exchange movements which arise from the Company s sources of finance by selectively entering into derivative financial instruments to manage its exposure The Company has also entered into derivative contracts on behalf of its subsidiary BSkyB Finance UK plc and has back-to-back intercompany contracts

Foreign exchange risk

The following analysis details the Company's sensitivity to movements in pounds sterling against all currencies in which it has significant transactions The sensitivity analysis includes only outstanding foreign currency denominated financial instruments and adjusts their translation at the period end for a 25% change in foreign currency rates

A 25% strengthening in pounds sterling against the US dollar would have an adverse impact on profit of £22 million (2012 adverse impact of £26 million) relating to non-cash movements in the valuation of derivatives The same strengthening would have an adverse impact on other equity of £25 million (2012 adverse impact of £21 million)

A 25% weakening in pounds sterling against the US dollar would have a beneficial impact on profit of £36 million (2012 beneficial impact of £43 million) relating to non-cash movements in the valuation of derivatives The same weakening would have a beneficial impact on other equity of £42 million (2012 beneficial impact of £34 million)

Interest rate risk

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative financial instruments at the balance sheet date For floating rate liabilities the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year

For each one hundred basis point rise or fall in interest rates at 30 June 2013, and if all other variables were held constant the Company s profit for the year ended 30 June 2013 would decrease or increase by £3 million (2012 decrease or increase by £3 million) and other equity reserves would decrease or increase by £4 million (2012 decrease or increase by £4 million)

A one hundred basis point rise or fall in interest rates represents a large but realistic movement which can easily be multiplied to give sensitivities at different interest rates

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company In addition, the Company's actual exposure to market rates changes as the Company's portfolio of debt changes

The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses

Notes to the consolidated financial statements

continued

32 BRITISH SKY BROADCASTING GROUP PLC COMPANY ONLY FINANCIAL STATEMENTS *continued*

Liquidity risk

See note 22 for the Company's policy on liquidity management

The following table analyses the Company's non-derivative financial liabilities net settled interest rate swaps and gross settled currency swaps and collars into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date

The amounts disclosed in the table are the contractual undiscounted cash flows and may therefore not reconcile to the amounts disclosed on the balance sheet for borrowings derivative financial instruments and other payables

	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
At 30 June 2013				
Non-derivative financial liabilities				
Bonds - USD	83	83	740	999
Bonds - GBP	18	18	54	462
Other payables	3 434	-	-	-
Net settled derivatives				
Financial assets	(17)	(17)	(51)	(6)
Gross settled derivatives				
Outflow	62	62	574	978
Inflow	(63)	(63)	(682)	(926)

	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
At 30 June 2012				
Non-derivative financial liabilities				
Bonds - USD	65	65	195	938
Bonds - GBP	18	18	54	480
Other payables	2 774	-	-	-
Net settled derivatives				
Financial assets	(18)	(18)	(56)	(25)
Gross settled derivatives				
Outflow	50	50	149	840
Inflow	(47)	(47)	(140)	(913)

At 30 June 2013, the Company had an undrawn £743 million RCF with a maturity date of 31 October 2017 See note 20 for further information

L Notes to the Company statement of changes in equity

For details of share capital, share premium the special reserve the capital redemption reserve and the hedging reserve see notes 23 and 24

For details of the Company s share buy-back programmes, see note 24

For details of dividends see note 9

Capital reserve

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

M Reconciliation of profit before tax to cash generated from operations

	2013 £m	2012 £m
Profit before tax	**1118**	**1,047**
Dividend income	(947)	(874)
Net finance costs	3	7
Increase in other receivables	(174)	(179)
Decrease in other payables	-	(1)
Cash generated from operations	-	-

N Contingent liabilities and guarantees

The Company and certain of its subsidiaries have undertaken in the normal course of business to provide support to several of the Group's investments in both limited and unlimited companies and partnerships, to meet their liabilities as they fall due Several of these undertakings contain maximum financial limits These undertakings have been given for at least one year from the date of the signing of the UK statutory accounts of the related entity A payment under these undertakings would be required in the event of an investment being unable to pay its liabilities

The Company has provided parent company guarantees in respect of the various contracts entered into with the Premier League by British Sky Broadcasting Limited covering the 2013/14 to 2015/16 football seasons In each case the guarantee covers all payment obligations now or in the future due owing or incurred by British Sky Broadcasting Limited under the contracts and all liabilities now or in the future arising or incurred under the indemnity given to the Premier League by British Sky Broadcasting Limited under the contracts

The Company has provided a parent company guarantee in respect of the contract entered into with British Sky Broadcasting Limited and Stanhope plc in relation to the construction of a new Meeting Centre at the Osterley Campus The guarantee covers all performance obligations and payment obligations imposed on British Sky Broadcasting Limited under that contract

The Company has guarantees in place relating to the Group s borrowings, see note 20 and in relation to audit exemptions, see note 31

O Transactions with related parties and major shareholders

	2013 £m	2012 £m
Supply of services to subsidiaries	214	200
Interest received from funding to subsidiaries	58	56
Amounts owed by subsidiaries	2966	1652
Amounts owed to subsidiaries	(3,398)	(2746)
Amounts owed to other related parties	(6)	(4)

The Company has related party transactions with its subsidiaries by virtue of its status as parent company of the Group In particular it is normal treasury practice for the Company to lend and borrow cash to and from its subsidiaries as required Under this policy British Sky Broadcasting Limited settled liabilities of £74 million (2012 £67 million) on behalf of the Company during the year Interest is earned on certain loans to subsidiaries

The Company recognised £214 million (2012 £200 million) for licensing the Sky brand name to subsidiaries

The Company recognised dividends during the year from subsidiaries totalling £947 million (2012 £874 million)

Share buy-back programme

During the year, the Company purchased and subsequently cancelled 31525314 ordinary shares held by Twenty-First Century Fox, Inc (formerly known as News Corporation) as part of its share buy-back programme For further details see note 24

The Group's related party transactions are disclosed in note 28

P Events after the reporting period

On 25 July 2013 the Board agreed to seek the necessary approvals to return a further £500 million of capital to shareholders via a share buy-back programme For further details see note 30 to the consolidated financial statements

Group financial record – unaudited

Consolidated results

Below is selected financial information for the Group under IFRS as at and for each of the five years ended 30 June 2013

Consolidated Income Statement	Year ended 30 June 2013 £m	Year ended 30 June 2012 £m	Year ended 30 June 2011 £m	Year ended 30 June 2010 £m	Year ended 30 June 2009 £m
Continuing operations					
Retail subscription	5951	5 593	5 471	4 778	4 187
Wholesale subscription	396	351	323	238	206
Advertising	440	440	458	340	329
Installation hardware and service	87	98	112	174	235
Other	361	309	233	179	200
Revenue(i)	**7,235**	**6,791**	**6 597**	**5,709**	**5 157**
Operating expense (i)	(5944)	(5,548)	(5,524)	(4,865)	(4 315)
Litigation settlement income	–	–	–	269	–
Operating profit	**1 291**	**1 243**	**1,073**	**1,113**	**842**
Share of results of joint ventures and associates	46	39	34	32	19
Investment income on litigation settlement	–	–	–	49	–
Investment income	28	18	9	3	35
Finance costs	(108)	(111)	(111)	(122)	(220)
Impairment of available-for-sale investment	–	–	–	–	(191)
Profit on disposal of available-for-sale investment	–	–	9	115	–
Profit before tax	**1 257**	**1 189**	**1,014**	**1,190**	**485**
Taxation	(278)	(283)	(256)	(294)	(194)
Profit for the year from continuing operations	**979**	**906**	**758**	**896**	**291**
Discontinued operations					
Profit (loss) for the year from discontinued operations	–	–	52	(18)	(32)
Profit for the year	**979**	**906**	**810**	**878**	**259**
Net profit (loss) recognised directly in equity	129	64	(8)	61	134
Total comprehensive income for the year	**1108**	**970**	**802**	**939**	**393**
Earnings per share from profit for the year (in pence)					
Basic	60 7p	52 6p	46 5p	50 4p	14 9p
Diluted	59 7p	52 2p	45 9p	50 1p	14 8p
Dividends per share (in pence)	30 0p	25 4p	23 3p	19 4p	17 6p

Consolidated Balance Sheet	30 June 2013 £m	30 June 2012 £m	30 June 2011 £m	30 June 2010 £m	30 June 2009 £m
Non-current assets	3776	3 234	3,025	2 818	2632
Current assets	2569	2,275	2 329	1,986	1937
Total assets	6 345	5 509	5,354	4 804	4 569
Current liabilities	(2,317)	(2,098)	(1 912)	(1 707)	(2 194)
Non-current liabilities	(3 016)	(2 467)	(2 407)	(2 537)	(2 439)
Net assets (liabilities)	1 012	944	1 035	560	(64)
Number of shares in issue (in millions)	1 594	1 674	1 753	1 753	1 753

Consolidated results continued

Statistics	Year ended 30 June 2013 ('000)	Year ended 30 June 2012 ('000)	Year ended 30 June 2011 ('000)	Year ended 30 June 2010 ('000)	Year ended 30 June 2009 ('000)
Products					
TV	10 422	10 288	10 187	9 860	9 442
Sky+HD	4 786	4 343	3 822	2,939	1 313
Multiroom	2 489	2 402	2 250	2 121	1 835
Sky Go Extra	166	-	-	-	-
Broadband	4 906	4,001	3 335	2 624	2 203
Telephony	4 501	3 768	3 101	2,367	1 850
Line rental	4,364	3 563	2 680	1,686	917
Total paid-for subscription products	**31,634**	**28,365**	**25 375**	**21 597**	**17,560**
Customers					
Retail customers	11 153	10 606	10 294	9 868	9 442
Wholesale customers(iii)	3 677	3,672	3,522	3 271	3 160
Total customers	**14 830**	**14,278**	**13,816**	**13,139**	**12 602**
Average number of full-time equivalent employees	19 413	17,937	16 006	16 439	14,922

Notes

(i) Included within retail subscription revenue for the year ended 30 June 2009 is £36 million of additional revenue representing amounts invoiced in prior years which did not meet revenue recognition criteria under IFRS until March 2009

(ii) Included within operating expense for the year ended 30 June 2013 is a credit of £32 million in relation to a credit note received following an Ofcom determination a credit of £33 million relating to the final settlement of disputes with a former manufacturer of set-top boxes (net of associated costs), costs of £31 million relating to one-off upgrade of set-top boxes costs of £33 million relating to a corporate efficiency programme and costs of £15 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business Also included are costs of £25 million relating to the programme to offer wireless connectors to selected Sky Movies customers
Included within operating expense for the year ended 30 June 2012 is a credit of £31 million in relation to the News Corporation (subsequently renamed Twenty First Century Fox Inc) proposal in 2011 consisting of costs incurred offset by the receipt of the break fee Also included are restructuring costs of £11 million which comprise severance payments in relation to approximately 35 senior roles as part of a restructuring initiative to improve operating efficiency
Included within operating expense for the year ended 30 June 2011 is £26 million of restructuring costs arising on the acquisition of Living TV which comprise principally redundancy payments and the early termination of a pre-acquisition contract, £15 million of costs in relation to the News Corporation (subsequently renamed Twenty First Century Fox Inc.) proposal and a credit of £41 million in relation to the refund of import duty on set-top boxes paid out in prior years This duty was recovered due to the judgment given by the ECJ on 14 April 2011
Included within operating expense for the year ended 30 June 2010 is £32 million of expense relating to a restructuring exercise of which £22 million related to the impairment of assets associated with Picnic (the potential launch of a subscription television service on DTT) and £10 million related to reorganisation costs and redundancy payments Also included within operating expense for the year ended 30 June 2010 is £1 million (2009 £3 million) of expense relating to legal costs incurred on the Group s claim against EDS which provided services to the Group as part of the Group s investment in customer management systems software and infrastructure and a £5 million credit (2009 nil) related to the cancellation of accounts payable on settlement of the claim against EDS

(iii) Wholesale customers are customers who take a package from one of Sky's Wholesale Partners in which they receive at least one paid for Sky channel

Factors which materially affect the comparability of the selected financial data

Discontinued operations

During fiscal 2011, the Group sold its business-to-business telecommunications operation Easynet, to LDC

EDS Litigation settlement

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

Available-for-sale investment

During fiscal 2011 we disposed of our equity investment in Shine and recognised a profit of £9 million

During fiscal 2010 we disposed of part of our equity investment in ITV and recognised a profit on disposal of £115 million For further details see note 14 to the consolidated financial statements

During fiscal 2009, we recorded an impairment loss of £191 million in the carrying value of our equity investment in ITV

Business combinations

During fiscal 2013 we completed the acquisition of the O2 consumer broadband and fixed-line telephony business from Telefónica UK, comprising 100% of the share capital of Be Un Limited The results of this acquisition were consolidated from the date on which control passed to the Group (30 April 2013)

During fiscal 2011, we completed the acquisitions of Living TV and The Cloud The results of these acquisitions were consolidated from the date on which control passed to the Group (12 July 2010 and 23 February 2011 respectively)

Exchange rates

A significant portion of our liabilities and expenses associated with the cost of programming acquired from US film licensors together with set-top box costs are denominated in US dollars For a discussion of the impact of exchange rate movements on our financial condition and results of operations see note 22 to the consolidated financial statements

Non-GAAP measures

All continuing operations

Reconciliation of operating profit to adjusted operating profit and adjusted EBITDA

for the year ended 30 June 2013

	Notes	2013 £m	2012 £m	2011 £m
Operating profit		1,291	1,243	1,073
Credit received following final settlement of disputes with a former manufacturer of set-top boxes including an impairment of £6 million in relation to associated intangible assets	3	(33)	-	-
Costs relating to a corporate efficiency programme including an impairment of £6 million in relation to associated intangible and tangible assets	3	33	-	-
Credit received following an Ofcom determination	3	(32)	-	-
Costs relating to one-off upgrade of set-top boxes	3	31	-	-
Costs relating to programme to offer wireless connectors to selected Sky Movies customers	3	25	-	-
Costs relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business including amortisation of £4 million in relation to associated intangible assets	3	15	-	-
(Net recovery of) costs in relation to News Corporation (subsequently renamed Twenty-First Century Fox, Inc.) proposal	3	-	(31)	15
Costs relating to a restructuring exercise	3	-	11	-
Living TV restructuring costs		-	-	26
Recovery of import duty on set-top boxes		-	-	(41)
Adjusted EBITDA		1,692	1 567	1,405
Depreciation and amortisation		(362)	(344)	(332)
Adjusted operating profit		1,330	1 223	1,073

Reconciliation of cash generated from operations to adjusted free cash flow

for the year ended 30 June 2013

	Note	2013 £m	2012 £m	2011 £m
Cash generated from operations	25	1,877	1 737	1,569
Interest received		29	17	7
Taxation paid		(300)	(254)	(219)
Dividends received from joint ventures and associates		43	39	29
Net funding to joint ventures and associates		(4)	(6)	(4)
Purchase of property plant and equipment		(203)	(228)	(197)
Purchase of intangible assets		(251)	(229)	(226)
Interest paid		(128)	(125)	(124)
Free cash flow		1,063	951	835
Receipt following final settlement of disputes with a former manufacturer of set-top boxes(i)		(10)	-	-
Cash paid relating to a corporate efficiency programme		4	-	-
Receipt following an Ofcom determination(i)		(28)	-	-
Cash paid relating to one-off upgrade of set-top boxes(i)		7	-	-
Cash paid relating to programme to offer wireless connectors to selected Sky Movies customers(i)		1	-	-
Cash paid relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business		4	-	-
(Net recovery of) costs in relation to News Corporation (subsequently renamed Twenty-First Century Fox Inc) proposal(i)		-	(13)	2
Cash paid relating to a restructuring exercise		-	3	6
Recovery of import duty on set-top boxes(i)		-	(25)	-
Receipt on disposal of joint venture(i)		(13)	(6)	-
Living TV restructuring costs		-	-	26
Adjusted free cash flow		1028	910	869

(i) Net of applicable corporation tax

Average Revenue Per User (ARPU)

for the year ended 30 June 2013

	2013 £m	2012 £m	2011 £m
ARPU as previously reported	**n/a**	**548**	**539**
Impact of standalone home communications[i]	-	-	(5)
Benefit of zero-VAT magazine related income[ii]	-	-	(3)
Elimination of timing difference related to magazine closure[iii]	-	-	7
ARPU	**577**	**548**	**538**

(i) We have restated ARPU to include standalone home communications customers
(ii) We previously recognised the benefit arising from the zero rated VAT treatment on a small portion of customer revenue attributable to the Sky magazine Following closure of the magazine we have restated the comparatives to present on a like for-like basis
(iii) Following our decision to close the Sky customer magazine a one-off timing upside was reversed which related to revenue recognition of the magazine element of subscription revenue This equated to a £7 reduction to ARPU in 2011

Shareholder information

Annual General Meeting
The Company's AGM will be held on 22 November 2013 at 11 00am at the Edinburgh International Conference Centre The Exchange Edinburgh EH3 8EE

Financial calendar
Results for the financial year ending 30 June 2014 will be published

17 October 2013
30 January 2014*
1 May 2014*
25 July 2014*

* provisional dates

The Sky website
Shareholders are encouraged to visit the Sky website sky com which has a wealth of information about the Company There is a section designed specifically for investors at sky com/corporate where investor and media information can be accessed This year's Annual Report and Annual Review and prior year documents can be viewed there

Share price information
The Company's share price can be found on the Company's corporate website at sky com/corporate

Shareholder enquiries
The Company's shareholder register is maintained by its Registrar Equiniti Information on how to manage your shareholdings can be found at help shareview co uk The pages at this web address provide the following

> Answers to commonly asked questions regarding shareholder registration,
> Links to downloadable forms guidance notes, and Company history fact sheets
> A choice of contact methods – via email, phone or writing

Alternatively shareholders can contact Equiniti in relation to all administrative enquiries relating to their shares such as a change of personal details, the loss of a share certificate or an out-of-date dividend cheque

Shareholders can contact Equiniti at

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
Telephone 0871 384 2030*
Telephone number from outside the UK +44 121 415 7047

* Calls to the above number are charged at 8p per minute from a BT landline Other telephony providers costs may vary Lines are open from 8 30am to 5 30pm Monday to Friday

Electronic shareholder communication
In accordance with the provisions of the Companies Act 2006 and the Company's articles of association the Company is permitted to use its corporate website as the main way to communicate with shareholders, sending out Annual Reports only to those who have opted to receive a paper copy This reduces our impact on the environment minimises waste and reduces costs It also enables shareholders to keep updated with developments at Sky as they happen by accessing our website

Shareholders who have opted to receive shareholder communications in paper form are encouraged to receive these electronically in future by registering at shareview co uk Shareholders can also change their instructions at any time by contacting Equiniti Limited

Dividends
Shareholders can have their dividends paid directly into a UK bank or building society account with the tax voucher sent directly to their registered address Please contact Equiniti on 0871 384 2091 for a dividend mandate form

The Company operates a consolidated tax voucher service for shareholders who have chosen to receive dividends directly into their bank account A single consolidated tax voucher will be mailed by the end of November each year, to coincide with the final dividend payment Full details are available at corporate sky com

Overseas dividend payments
A service has been established to provide shareholders in over 30 countries worldwide with the opportunity to receive their dividends in their local currency For a small flat-rate fee, shareholders can have their dividends automatically converted from Sterling and paid into their nominated bank account normally within five working days of the dividend payment date For further details, please contact Equiniti on 0871 384 2091

Dividend Reinvestment Plan
The Company operates a Dividend Reinvestment Plan ('DRIP") which enables shareholders to buy the Company's shares on the London stock market with their cash dividend Further information about the DRIP is available from Equiniti The helpline number is 0871 384 2268 from inside the UK and +44 121 415 7173 from overseas

ShareGift
Shareholders who only have a small number of shares whose value makes it uneconomic to sell them may wish to consider donating them to charity through ShareGift, the independent charity share donation scheme (registered charity no 1052686) Further information about ShareGift may be obtained from Equiniti or from ShareGift on 020 7930 3737 or at sharegift org. There are no implications for capital gains tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to claim income tax relief

Shareholder fraud
Fraud is on the increase and many shareholders are targeted every year If you have any reason to believe that you may have been the target of a fraud, or attempted fraud in relation to your shareholding please contact Equiniti immediately For more information please see protect your shareholding" in the shareholder information section of our website at corporate sky com

American Depositary Receipts ("ADRs")
The Company's ADR programme trades on the over-the-counter ("OTC") market in the US The Company's ADRs are quoted on the OTC market s highest tier International PremierQX More information can be obtained from, otcqx com ADRs are quoted in US dollars and trade just like any other US security The Company has a sponsored Level 1 ADR programme for which The Bank of New York Mellon acts as Depositary One ADR represents four ordinary shares

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

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Glossary of terms

Useful Definitions	Description
21st Century Fox UK Nominees Ltd	Following the split of the News Corporation companies on 28 June 2013 News UK Nominees Limited has been renamed 21st Century Fox UK Nominees Limited
ADSL2+	The type of broadband supplied over Sky's own data network offering end-users increased speeds compared to the original ADSL technology (ADSL2+ typically offers download speeds of up to 15 mbps)
Bonus channel	A channel provided to a TV customer in addition to one or more subscription channels, but at no incremental cost to the TV customer
BSkyB or the Company	British Sky Broadcasting Group plc
Churn	The number of total customers over a given period that terminate their subscription in its entirety, net of former customers who reinstated their subscription in that period (where such reinstatement is within a 12-month period of the termination of their original subscription) expressed as an annualised percentage of total average customers for the period
CO_2e	Carbon dioxide equivalent This expresses the global warming potential of different greenhouse gases (for example methane, nitrous oxide) in terms of the equivalent amount of carbon dioxide measured in tonnes
DSL	Digital Subscriber Line
DTH	Direct-to-Home the transmission of satellite services and functionality with reception through a minidish DTH customer' means a subscriber to one or more of our retailed packages of television channels made available via DTH
DTT	Digital Terrestrial Television digital signals delivered to homes through a conventional aerial, converted through a set-top box or integrated digital television set
EBITDA	Earnings before interest, taxation, depreciation and amortisation is calculated as operating profit before depreciation amortisation and impairment of property plant and equipment and intangible assets
EPG	Electronic Programme Guide
ESOP	Employee Share Ownership Plan
ESPN	Entertainment and Sports Programming Network broadcasting the ESPN ESPN Classic ESPN America and ESPN HD Channels
Fiscal year or fiscal	Refers to the twelve months ended on the Sunday nearest to 30 June of the given year
Freeview	The free-to-air DTT offering available in the UK
Freesat	The free-to-air DTH joint venture between the BBC and ITV
GAAP	Generally Accepted Accounting Principles
The Group	BSkyB and its subsidiary undertakings
HD	High Definition television
HMRC	Her Majesty's Revenue and Customs
IFRS	International Financial Reporting Standards
IP	Internet Protocol a mechanism by which data packets may be routed between computers on a network
IPTV	Internet Protocol Television
LLU	Local Loop Unbundling a process by which BT's exchange lines are physically disconnected from BT's network and connected to other operators networks This enables operators other than BT to use the BT local loop to provide services to customers
Minidish	Satellite dish required to receive digital satellite television
MMDS	Multipoint Microwave Distribution Service
MPF	Metallic Path Facilities which occur where a single communications provider uses the local loop to provide both broadband and voice services over its network
Multiroom	Installation of an additional set-top box in the household of an existing DTH customer
NOW TV	The Group s internet streaming service available to anyone in the UK with an internet connection regardless of ISP This service is currently available on PC, Mac the XBox 360, PlayStation 3, YouView and Roku set-top boxes, and selected Android devices
NVN	New Voice Network
Ofcom	UK Office of Communications
On Demand	Sky's On Demand service offering a selection of content from across the Sky platform available for customers to watch whenever they want The full On Demand service is available to customers that have an active broadband connection

Useful Definitions	Description
PL	Premier League
Premium Channels	The Sky Premium Channels and the Premium Sky Distributed Channels
Premium Sky Distributed Channels	MUTV Chelsea TV and MGM HD
PVR	Personal Video Recorder satellite decoder which utilises a built-in hard disk drive to enable viewers to record without videotapes pause live television and record one programme while watching another
RCF	Revolving Credit Facility
Set-top box	Digital satellite equipment, responsible for receiving, converting and sending the picture and sound of a broadcast to the associated television set
Sky	British Sky Broadcasting Group plc and its subsidiary undertakings
Sky+	Sky's fully-integrated PVR and satellite decoder
Sky+ HD	High Definition box with PVR functionality
Sky Basic Channels	Sky 1 Sky 2 Pick TV Challenge Sky News Sky Sports News, Sky Arts 1 and Sky Arts 2, Sky Poker com Sky Living, Sky Living It and Sky Atlantic (and their multiplex versions and their simulcast HD versions)
Sky Bet	Sky's betting services provided through set-top boxes the internet and via phone
Sky Broadband	Home broadband service previously provided exclusively for Sky digital customers but now extended to customers who do not take a television service from Sky
Sky Box Office	Our pay-per-view service offering movies sporting events and concerts generally offered at scheduled times on our 36 dedicated linear channels
Sky Channels	Television channels wholly-owned by the Group being the Sky Basic Channels and Sky Premium Channels
Sky Distributed Channels	Television channels owned and broadcast by third parties, retailed by the Group to TV Customers
Sky Go	Sky s retailed packages of television channels and on demand content made available via a broadband connection including the version made available to mobile devices via a wireless or 3G connection
Sky Go Extra	Selected content included within Sky s retailed packages of television channels and on demand content made available to download, enabling customers to watch the content when and wherever they want, without the need for a broadband, wireless or 3G/4G connection
Sky Mobile	Sky's retailed packages of television channels made available to mobile devices via a wireless or 3G connection and our Sky Mobile TV platform
Sky Premium Channels	Sky Sports 1 Sky Sports 2 Sky Sports 3, Sky Sport 4 Sky Sports F1, Sky Movies Premiere Sky Movies Showcase, Sky Movies Comedy Sky Movies Family, Sky Movies Action & Adventure Sky Movies 007, Sky Movies SciFi & Horror, Sky Movies Drama & Romance Sky Movies Crime & Thriller Sky Movies Disney and Sky Movies Select (and their multiplex versions and their simulcast HD versions) and Sky 3D
Sky Store	Our pay-per-view, on demand movies rental service available via Sky On Demand and Sky Go
Sky Talk	Home telephony service provided for Sky digital subscribers and now extended to customers who do not take a television service from Sky
Sky WiFi	Sky's seamless wireless internet access provided at over 20 000 The Cloud hotspots in the UK
SMPF	Shared Metallic Path Facility
Standalone home communications	Sky's retailed packages of broadband talk and line rental when taken without a television subscription package
Transponder	Communication devices on satellites which send programming signals to mini dishes
TV Customer	A paying subscriber to one or more of our TV services principally DTH and NOW TV
Twenty-First Century Fox, Inc.	Following the split of the News Corporation companies on 28 June 2013, News Corporation has been renamed Twenty-First Century Fox, Inc
Viewing share	Number of people viewing a channel as a percentage of total viewing audience
VM	Virgin Media

References to "US dollars" "dollars" "US$", "$" and "¢" are to the currency of the United States ("US") references to "euro" and "€" are to the currency of the participating European Union ("EU") countries and references to 'pounds sterling' '£', "pence" and 'p' are to the currency of the UK

Further information

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The 2013 BSkyB Annual Review and Annual Report are available to view or download at sky.com/corporate

To find out more about how we are building a better and more sustainable business for the long term visit sky.com/biggerpicture and download the Seeing the bigger picture Summary Report 2013