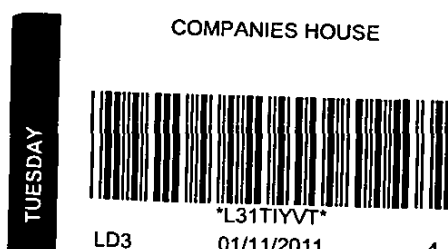


Sky In-Home Service Limited

Annual report and financial statements
for the year ended 30 June 2011

Registered number 2067075



Directors and Officers

For the year ended 30 June 2011

Directors

Sky In-Home Service Limited's ("the Company's") present Directors and those who served during the year are as follows

D J Darroch

A J Griffith

Secretary

D J Gormley

Registered office

Grant Way

Isleworth

Middlesex

TW7 5QD

Auditor

Deloitte LLP

Chartered Accountants

London,

United Kingdom

Directors' Report

The Directors present their Annual Report on the affairs of the Company, together with the financial statements and Auditor's Report for the year ended 30 June 2011

Business review and principal activities

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

The Company's purpose is to supply the Group with a supply chain function which is responsible for the sourcing and distribution of all equipment required to be used in the customer's home and by the engineers, together with the planning and operational management of the field force that undertakes all installation and service activity on behalf of the Group's customers. The Company manages the relationship with the engineers and the outsourced repair and logistics operation that service the Sky platform. The Directors expect that there will be no major changes in the Company's activities in the following year.

On 7 May 2008 the Combined Nomenclature Committee of the European Commission issued an Explanatory Note imposing a 13.9% ad valorem customs duty to the importation of set-top boxes incorporating a hard disk drive. The Group appealed this decision to the First Tier Tribunal (Tax Chamber) ("Tribunal"). On 6 July 2009 the Tribunal referred the matter to the Court of Justice of the European Union ("ECJ"). On 14 April 2011 the ECJ gave judgment agreeing with our analysis that the primary purpose of such set-top boxes was to act as a television receiver such that no customs duty is payable. The Group paid £53 million of duty on set-top boxes from 30 June 2008 to 14 April 2011, which was recovered from HMRC in September 2011.

The audited financial statements for the year ended 30 June 2011 are set out on pages 9 to 34. The profit after tax for the year was £58,778,000 (2010: £64,487,000). The Company's revenue decreased by 23% in the year, principally due to a decrease in the cost of supplying and installing satellite television equipment, which is recharged to other Group companies, in addition to a decrease in hardware, installation and service revenue.

The balance sheet shows that the Company's shareholder equity position at the year end is £103,742,000 (2010: £113,745,000). The Directors paid a distribution of £70,000,000 for the year ended 30 June 2011 (2010: £170,000,000).

The total number of UK and Ireland TV customers increased by 327,000 in the year to 10,187,000. This was a result of gross customer additions of 1,391,000 in the current year, partly offset by DTH churn of 10.4% (2010: 10.3%).

Key performance indicators (KPIs)

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

Principal risks and uncertainties

The Company's activities expose it to financial risks, namely credit risk and liquidity risk. The Company is not exposed to significant foreign exchange or interest rate risk.

Financial risk management objectives and policies

Credit risk

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

Directors' Report (continued)

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers, other than amounts payable to and receivable from other Group companies

Liquidity risk

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

Going concern

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

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

Directors

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

Payment policy

The policy of the Company is to agree terms of payment with suppliers prior to entering into a contractual relationship. In the absence of a specific agreement, it is the policy of the Company to pay suppliers in accordance with its standard payment terms of 45 days. The Company had below 45 days' purchases outstanding at 30 June 2011 (2010: below 45 days) based on the total amount invoiced to trade suppliers during the year.

Employment policies

Organisation

Over the past year, the Company has continued in its efforts to make the Company a great place to work. The Company has continued to place particular focus on leadership capability, looking both at the Company's leaders of today and future leaders. The average monthly number of full-time equivalent persons employed by the Company during the year was 2,710 (2010: 2,943).

Leadership and Collaboration

The Company has articulated six behaviours that we believe are vital for our leaders to embrace to help us grow our business. These are: Clear Direction, Doing the Right Thing, Feedback and Development, Change and Improvement, Teamwork and Collaboration and Empowerment.

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

The Company has also run comprehensive development programmes for the leaders in its contact centres to ensure they are equipped to motivate and manage their teams to deliver the best possible customer service.

Directors' Report (continued)

Managing and developing our people

Building our capability

With our people at the heart of everything we do, making sure everyone has the right skills to do their jobs is vital. The Development Studio offers a wide range of resources that enable everyone in the Company to have access to the latest e-learning, MP3 downloads, books and courses. This has been across a range of subjects including multi-skilling. The effectiveness of the training is tracked by testing individuals pre and post training.

Creating opportunities for all

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

We believe in attracting and nurturing future talent to support our growth so we have continued to develop our future talent programme. This year it has continued to go from strength to strength. Our future talent programme focuses on developing students still in education, school leavers and graduates. This year the Company increased its graduate intake and will be providing a new centralised graduate development programme aimed at building the leaders of tomorrow. For school leavers the apprenticeship scheme is continuing to expand, doubling the size of its intake.

Work placement opportunities also provide an opportunity for the Company to contribute to the development and experience of young people.

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

Employee engagement

The Company has developed a new employee engagement survey this year to enable the Company to benchmark itself against other UK companies and specifically against high performing companies.

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

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

Having open and transparent communications through the business is important to the Company. Representatives from the Company meet several times a year to discuss a wide range of business issues and to provide input that helps to continuously innovate and improve the way the Company operates. The meetings are attended by the most senior

Directors' Report (continued)

executives of the Company. This year the forum has evolved and it is now more engaged in working through and helping resolve issues or implement ideas rather than just bringing them to the Company's attention.

Diversity

The Company is starting to reap the benefits of the diversity strategy introduced last year with a focus on increasing representation of women and people from Black and Minority Ethnic (BAME) groups in leadership and management positions. There have been a number of initiatives in support of the strategy, including evolving our Senior Women's Development Network, significantly enhancing our maternity benefits and partnering with various non-for-profit organisations in support of the recruitment of BAME applicants into the Company.

Reward and Recognition

The Company continues to provide a generous benefits package to all its employees and to benchmark pay against relevant industry norms to ensure that the Company's reward practices are meeting the evolving needs of the business.

The Company's various recognition schemes ensure that its people are recognised for their outstanding contribution to the business.

Health, Safety and Wellbeing

The health, safety and wellbeing of the Company's people are of paramount importance wherever, whenever they work and whatever they are doing.

The Company takes a holistic approach to keeping the Company a safe place to work, so whilst accident prevention and safety training is important, the long-term wellbeing of the Company's employees is equally important.

The Company's occupational Health service supports employees with staying productive with a range of support and facilities to help keep people healthy and happy. Some on-site complimentary therapies have been introduced at some of our sites.

Directors' Report (continued)

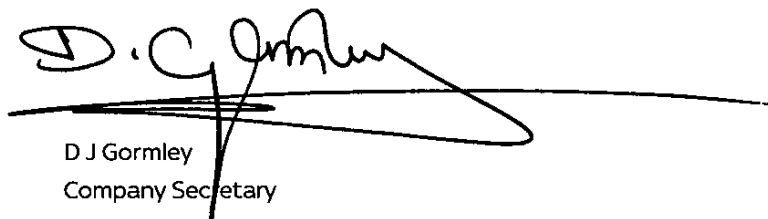
Auditor

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 ought to have taken as a Director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information

Deloitte LLP have expressed their willingness to continue as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

By Order of the Board,



D J Gormley
Company Secretary

Grant Way
Isleworth
Middlesex
TW7 5QD

20 October 2011

Statement of Directors' responsibility

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors

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

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

Auditor's report

Independent Auditor's Report to the members of Sky In-Home Service Limited

We have audited the financial statements of Sky In-Home Service Limited for the year ended 30 June 2011 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of Directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the Company's affairs as at 30 June 2011 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

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

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

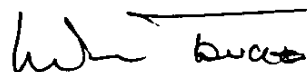
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



William Touche (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

22 October 2011

Statement of Comprehensive Income

For the year ended 30 June 2011

	Notes	2011 £'000	2010 £'000
Revenue	2	782,394	1,020,853
Operating expense	3	(701,706)	(929,236)
Operating profit		80,688	91,617
Investment income	4	618	425
Finance costs	4	(1,589)	(1,858)
Profit before tax	5	79,717	90,184
Tax	7	(20,939)	(25,697)
Profit for the year attributable to equity shareholder		58,778	64,487

The accompanying notes are an integral part of this Statement of Comprehensive Income. For the years ended 30 June 2011 and 30 June 2010 the Company did not have any items of other Comprehensive Income.

All results relate to continuing operations.

Statement of Changes in Equity

For the year ended 30 June 2011

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total shareholder's equity £'000
At 1 July 2009	1,576	56	216,622	218,254
Profit for the year	-	-	64,487	64,487
Share based payment	-	-	780	780
Tax on items taken directly to equity	-	-	224	224
Distributions	-	-	(170,000)	(170,000)
At 30 June 2010	1,576	56	112,113	113,745
Profit for the year	-	-	58,778	58,778
Share based payment	-	-	935	935
Tax on items taken directly to equity	-	-	284	284
Distributions	-	-	(70,000)	(70,000)
At 30 June 2011	1,576	56	102,110	103,742

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

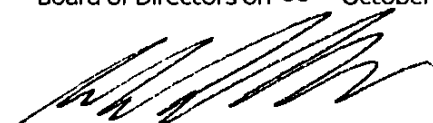
Balance Sheet

As at 30 June 2011

	Notes	2011 £'000	2010 £'000
Non-current assets			
Intangible assets	9	3,854	7,950
Property, plant and equipment	10	6,964	8,108
Investments in subsidiaries	11	1,214	1,214
Deferred tax assets	12	980	1,161
		13,012	18,433
Current assets			
Inventories	13	107,270	81,272
Trade and other receivables	14	1,192,375	1,017,686
Cash and cash equivalents		1,167	3,010
		1,300,812	1,101,968
Total assets		1,313,824	1,120,401
Current liabilities			
Trade and other payables	15	1,209,959	1,006,483
Provisions	16	21	36
		1,209,980	1,006,519
Non-current liabilities			
Provisions	16	102	137
Total liabilities		1,210,082	1,006,656
Share capital	18	1,576	1,576
Share premium		56	56
Reserves		102,110	112,113
Total equity attributable to equity shareholder		103,742	113,745
Total liabilities and shareholder's equity		1,313,824	1,120,401

The accompanying notes are an integral part of this Balance Sheet

The financial statements of Sky In-Home Service Limited, registered number 2067075, have been approved by the Board of Directors on 20 October 2011 and were signed on its behalf by



A J Griffith
Director

20 October 2011

Cash Flow Statement

For the year ended 30 June 2011

	Note	2011 £'000	2010 £'000
Cash flows used in operating activities			
Cash used in operations	19	(297,163)	(86,917)
Net cash used in operating activities		(297,163)	(86,917)
Cash flows generated from investing activities			
Purchase of property, plant and equipment		(359)	(5,567)
Purchase of intangible assets		(1,245)	(11,426)
Loans from Group companies		367,895	278,208
Net cash generated from investing activities		366,291	261,215
Cash flows used in financing activities			
Interest paid		(1,589)	(1,858)
Interest received		559	425
Distributions paid		(70,000)	(170,000)
Distributions received		59	-
Net cash used in financing activities		(70,971)	(171,433)
Net (decrease) increase in cash and cash equivalents		(1,843)	2,865
Cash and cash equivalents at the beginning of the year		3,010	145
Cash and cash equivalents at the end of the year		1,167	3,010

The accompanying notes are an integral part of this Cash Flow Statement

Cash flows arising from loans to and from Group companies have been reclassified from financing activities to investing activities to better reflect the nature of the item

Notes to the financial statements

1. Accounting policies

Sky In-Home Service Limited (the "Company") is a limited liability Company incorporated in England and Wales and domiciled in the United Kingdom ("UK")

a) Statement of compliance

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

b) Basis of preparation

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

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

The Company 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 Company.

c) Foreign currency translation

The Company's functional currency and presentational currency is pounds sterling. Trading activities denominated in foreign currencies are recorded in pounds sterling at the applicable monthly exchange rates. Monetary assets, liabilities and commitments denominated in foreign currencies at the balance sheet date are reported at the rates of exchange 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 on 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.

d) Intangible assets

Research expenditure is recognised in operating expense in the statement of comprehensive income as the expenditure is incurred. Development expenditure (relating to the application of research knowledge to plan or design new or substantially improved products for sale or use within the business) is recognised as an intangible asset from the point at which it is probable that the Company has the intention and ability to generate future economic benefits from the development expenditure, that the development is technically feasible and that the subsequent expenditure can be measured reliably. Any other development expenditure is recognised in operating expense as incurred. Amortisation of an intangible asset begins when the asset is available for use, and is charged to the statement of comprehensive income through operating expense on a straight-line basis over the intangible asset's estimated useful life, principally being a period between three and ten years, unless the asset life is judged to be indefinite. If the useful life is indefinite or the asset is not yet available for use, no amortisation is charged and an impairment test is carried out at least annually. Other intangible assets are tested for impairment in line with accounting policy h) below.

Notes to the financial statements

1. Accounting policies (continued)

e) Property, plant and equipment ("PPE")

i. Owned assets

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

ii. Depreciation

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	25-40 years
Equipment, furniture and fixtures	3 to 15 years
Assets under finance leases and Leasehold improvements	Lesser of lease term and the useful economic life of the asset

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

To the extent that the financing for a qualifying asset is part of the Company's general borrowings, the interest cost to be capitalised is calculated based upon the weighted average cost of borrowing to the Company (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) Inventories

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 statement of comprehensive income. 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 subscribers. The amount recognised in the statement of comprehensive income is determined on a weighted average cost basis, in accordance with IAS 2 "Inventory".

g) Financial assets and liabilities

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

Notes to the financial statements

1. Accounting policies (continued)

g) Financial assets and liabilities (continued)

i. 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 statement of comprehensive income.

ii. Cash and cash equivalents

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

iii. Trade and other payables

Trade and other payables are non-derivative financial liabilities and are measured at amortised cost using the effective interest method. Trade and other payables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial.

h) Impairment

At each balance sheet date, in accordance with IAS 36 "Impairment of Assets", the Company reviews the carrying amounts of all its assets excluding inventories (see accounting policy f), financial assets (see accounting policy g) and deferred tax (see accounting policy n) to determine whether there is any indication that any of those assets have suffered an impairment loss.

An impairment is recognised in the statement of comprehensive income whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of net selling price, defined as the fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

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

i) Investments 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 recorded 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.

Notes to the financial statements

1 Accounting policies (continued)

j) Provisions

Provisions are recognised when the Company 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 Company's best estimate of the transfer of benefits that will be required to settle the obligation as at 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) Revenue recognition

Revenue, which excludes value added tax, represents the gross inflow of economic benefit from the Company's operating activities. The Company's main source of revenue is recognised in the statement of comprehensive income when the goods and services are delivered. Revenue is measured at the fair value of the consideration received or receivable.

l) Employee benefits

i. Wages, salaries and social security contributions

Wages, salaries, social security contributions, bonuses payable and non-monetary benefits for current employees are recognised in the statement of comprehensive income as the employees' services are rendered.

ii. Pension obligations

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

iii. Termination benefits

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

iv. Equity compensation benefits

The Company issues equity-settled share-based payments to certain employees which must be measured at fair value and recognised as an expense in the statement of comprehensive income with a corresponding increase in equity. The fair values of these payments are measured at the dates of grant using option-pricing models, taking into account the terms and conditions upon which the awards are granted. The fair value is recognised over the period during which employees become unconditionally entitled to the awards, subject to the Company's estimate of the number of awards which will be forfeited, either due to employees leaving the Company prior to vesting or due to non-market based performance conditions not being met. Where an award has market-based performance conditions, the fair value of the award is adjusted for the probability of achieving these via the option pricing model. The total amount recognised in the statement of comprehensive income 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 Company 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.

Notes to the financial statements

1. Accounting policies (continued)

m) 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.

i. The Company as lessor

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

ii. The Company as lessee

Assets held under finance leases are recognised as assets of the Company at their fair value on the date of acquisition, or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reductions of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. The lease expense arising from operating leases is charged to the statement of comprehensive income 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.

n) Tax, including deferred tax

The Company's liability for current tax is based on taxable profit for the year, and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profit. Temporary differences arising from goodwill and the initial recognition of assets or liabilities that affect neither accounting profit nor taxable profit are not provided for. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or 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 statement of comprehensive income, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also included within equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

o) Distributions to equity shareholders

Distributions are recognised in the retained earnings reserve in the year in which they are declared.

Notes to the financial statements

1. Accounting policies (continued)

p) Critical accounting policies and use of judgment

Certain accounting policies are considered to be critical to the Company. An accounting policy is considered to be critical if its selection or application materially affects the Company's financial position or results. The Directors are required to use their judgment in order to select and apply the Company's critical accounting policies.

Below is a summary of the Company's critical accounting policies and details of the key areas of judgment that are exercised in their application:

- **Tax**

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

- **Receivables**

Judgment is required in evaluating the likelihood of collection of debt. This evaluation requires estimates to be made, including the level of provision to be made for amounts with uncertain recovery profiles.

- **Revenue**

Selecting the appropriate timing for, and amount of, revenue to be recognised requires judgment. The Company measures revenue at the fair value of the consideration received or receivable.

q) Accounting standards, interpretations and amendments to existing standards that are not yet effective

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for our accounting periods beginning on or after 1 July 2011 or later periods. These new standards are listed below:

- IAS 24 Revised (2009) "Related Party Disclosures" (effective 1 January 2011),
- Improvements to IFRSs 2010 – various standards (effective 1 January 2011),
- IFRS 9 "Financial Instruments" (effective 1 January 2013),
- IFRS 10 "Consolidated Financial Statements" (effective 1 January 2013),
- IFRS 11 "Joint Arrangements" (effective 1 January 2013),
- IFRS 12 "Disclosure of Interests in Other Entities" (effective 1 January 2013), and
- IFRS 13 "Fair Value Measurement" (effective 1 January 2013)

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

Notes to the financial statements

2. Revenue

All revenue is derived from the supply, installation and maintenance of satellite television receiving and related equipment. Revenue arises from goods and services provided to the United Kingdom, with the exception of £5,511,000 (2010: £9,334,000) which arises from services provided to the Republic of Ireland.

3. Operating expense

	2011 £'000	2010 £'000
Subscriber management and supply chain	664,178	888,560
Administration	37,528	40,676
	701,706	929,236

Subscriber management and supply chain costs principally comprise certain subscriber handling costs, costs relating to satellite reception equipment, installations and maintenance and the cost of set-top boxes.

4. Investment income and finance costs

	2011 £'000	2010 £'000
Investment income		
Intercompany interest receivable	559	425
Distributions received	59	-
	618	425
Finance costs		
Intercompany interest payable and similar charges	(1,589)	(1,858)

Intercompany interest includes interest receivable on a balance of £41 million with BSkyB Finance Limited and interest payable on a balance of £96 million with BSkyB Group plc.

The Company also received distributions from its investment in Athena Court Property Unit Trust during the year.

Notes to the financial statements

5. Profit before tax

Profit before tax is stated after charging (crediting)

	2011 £'000	2010 £'000
Cost of inventories recognised as an expense	339,894	443,282
Depreciation of property, plant and equipment	1,503	3,876
Amortisation of intangible assets	5,341	8,379
Rentals on operating leases and similar arrangements	8,647	7,790
Sub-lease rentals received on operating leases	-	(17)

Audit fees

Amounts paid to the auditor for the audit of the Company's annual accounts of £15,000 (2010 £15,000) were borne by another Group subsidiary in 2011 and 2010. No amounts for other services have been paid to the auditor.

6 Employee benefits and key management compensation

a) Company employee benefits

	2011 £'000	2010 £'000
Wages and salaries	73,543	82,060
Social security costs	7,873	6,933
Costs of employee share option schemes (i)	935	780
Contributions to the BSKyB Pension Plan (ii)	2,193	2,315
	84,544	92,088

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

(ii) The Company operates a defined contribution pension scheme (the "Pension Plan"). The pension charge for the year represents the cost of contributions payable by the Company to the schemes during the year. The amount payable to the schemes at 30 June 2011 was £23,000 (2010 £21,000).

The average monthly number of full-time equivalent persons (including temporary employees) employed by the Company during the year was 2,710 (2010 2,943).

	2011	2010
Supply Chain	2,698	2,931
Management and Administration	12	12
	2,710	2,943

b) Key management compensation

The Directors received no remuneration in respect of their services to the Company (2010 £nil).

Notes to the financial statements

7. Tax

a) Tax recognised in the statement of comprehensive income

	2011 £'000	2010 £'000
Current tax expense		
Current year	20,506	25,743
Adjustment in respect of prior years	-	144
Total current tax charge	20,506	25,887
Deferred tax expense		
Origination and reversal of temporary differences	102	(111)
Decrease in estimate of recoverable deferred tax asset	73	(79)
Adjustment in respect of prior years	258	-
Total deferred tax expense (credit)	433	(190)
Tax	20,939	25,697

b) Tax recognised directly in equity

	2011 £'000	2010 £'000
Current tax credit relating to stock options	(32)	(4)
Deferred tax credit relating to stock options	(252)	(220)
	(284)	(224)

c) Reconciliation of effective tax rate

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

	2011 £'000	2010 £'000
Profit before tax	79,717	90,184
Profit before tax multiplied by standard blended rate of corporation tax in the UK of 27.5% (2010 28%)	21,922	25,252
Effects of		
Disallowance in respect of share-based remuneration	(27)	303
Disallowance in respect of non qualifying depreciation	38	66
Other permanent differences	(1,252)	11
Over provision in respect of prior years	258	65
Tax	20,939	25,697

All tax relates to UK corporation tax and is settled by British Sky Broadcasting Limited on the Company's behalf.

Notes to the financial statements

8. Distributions

	2011 £'000	2010 £'000
Distributions declared and paid during the year		
2011 Distributions paid £44 416 per ordinary share (2010 £107 868 per ordinary share)	70,000	170,000

9. Intangible assets

	Total £'000
Cost	
At 1 July 2009	8,062
Additions	11,426
At 30 June 2010	19,488
Additions	1,245
At 30 June 2011	20,733
Amortisation	
At 1 July 2009	(3,159)
Amortisation for the year	(8,379)
At 30 June 2010	(11,538)
Amortisation for the year	(5,341)
At 30 June 2011	16,879
Carrying amounts	
At 1 July 2009	4,903
At 30 June 2010	7,950
At 30 June 2011	3,854

The Company's intangible assets represents spend on software and software licences

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

	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000
Estimated amortisation charge	2,222	1,024	370	238	-

Notes to the financial statements

10. Property, plant and equipment

	Equipment, furniture and fittings £'000	Assets not yet available for use £'000	Total £'000
Cost			
At 1 July 2009	8,464	2,148	10,612
Additions	5,567	-	5,567
Transfers	2,148	(2,148)	-
At 30 June 2010	16,179	-	16,179
Additions	359	-	359
At 30 June 2011	16,538	-	16,538
Depreciation			
At 1 July 2009	(4,195)	-	(4,195)
Depreciation	(3,876)	-	(3,876)
At 30 June 2010	(8,071)	-	(8,071)
Depreciation	(1,503)	-	(1,503)
At 30 June 2011	(9,574)	-	(9,574)
Carrying amounts			
At 1 July 2009	4,269	2,148	6,417
At 30 June 2010	8,108	-	8,108
At 30 June 2011	6,964	-	6,964

Notes to the financial statements

11. Investments in subsidiaries

Details of the principal investments of the Company are as follows

Name	Country of incorporation	Description and proportion of units held (%)	Principal activity
Direct holdings			
Athena Court Property Unit Trust	UK	4.98% of total units	Property letting

On 8 September 2008, the entire unit holdings in Athena Court Property Unit Trust ("Trust") were acquired by the Group. The Company acquired 12,100 units, representing 4.98% of the total units in the Trust for £1,214,308. The remaining 95.02% of the total units in the Trust are held by another Group company.

12. Deferred tax

Recognised deferred tax assets

	Fixed asset timing differences	Share-based payments timing differences	Short-term timing differences	Total
	£'000	£'000	£'000	£'000
At 1 July 2009	394	72	285	751
Credit (charge) to income	279	(139)	50	190
Credit to equity	-	220	-	220
At 30 June 2010	673	153	335	1,161
Charge (credit) to income	(416)	201	(218)	(433)
Credit to equity	-	252	-	252
At 30 June 2011	257	606	117	980

There were no unrecognised deferred tax assets or liabilities during the period.

13. Inventories

	2011 £'000	2010 £'000
Set-top boxes and related equipment	101,366	73,557
Other inventories	5,904	7,715
	107,270	81,272

Notes to the financial statements

14. Trade and other receivables

	2011 £'000	2010 £'000
Gross trade receivables	3,561	2,887
Less provision for impairment of receivables	(443)	(357)
Net trade receivables	3,118	2,530
Amounts receivable from other Group companies	1,124,445	1,000,005
Amounts owed from related parties	2	-
VAT	7,308	10,357
Prepayments	1,507	1,474
Accrued income	2,250	3,320
Other receivables	53,745	-
Total trade and other receivables	1,192,375	1,017,686

The ageing of the Company's net trade receivables which are past due but not impaired is as follows

	2011 £'000	2010 £'000
Up to 30 days past due date	110	1,313
30 to 60 days past due date	178	9
60 to 120 days past due date	128	447
More than 120 days past due date	-	35
	416	1,804

Provisions for doubtful debts

	2011 £'000	2010 £'000
Balance at beginning of year	357	683
Amounts utilised	(136)	(22)
Statement of comprehensive income charge (credit)	222	(304)
Balance at end of year	443	357

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

In April 2008 the Company entered into a revolving credit facility ("RCF") of £250 million with BSKyB Finance Limited whereby it is the lender and BSKyB Finance Limited is the borrower. This RCF is repayable on demand and it bears interest at one month LIBOR plus 0.75%. At 30 June 2011, the Company had made a loan of £41,331,000 (30 June 2010: £40,772,000) under the RCF, which is included within amounts due from other Group companies.

Notes to the financial statements

14. Trade and other receivables (continued)

In July 2008 the Company entered into a loan agreement with BSkyB Finance Limited whereby it is the lender and BSkyB Finance Limited the borrower. At 30 June 2011 the balance of this loan was £79,764,000 (30 June 2010 £149,764,000). This loan is non interest bearing and repayable on demand.

Amounts receivable from the parent company British Sky Broadcasting Limited total £1,002,991,000 at 30 June 2011 (30 June 2010 £697,411,000). No interest is charged on this trade balance and it is repayable on demand.

All other amounts receivable from other Group companies are trade balances that total £359,000 at 30 June 2011 (30 June 2010 £112,058,000).

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

Other receivables at 30 June 2011 primarily relate to the recovery of import duty due from HMRC following the judgment made by the Court of Justice of the European Union (ECJ) in April 2011, which was received by the Company in September 2011.

15. Trade and other payables

	2011 £'000	2010 £'000
Trade payables	-	11,910
Amounts payable to ultimate parent Company	95,683	94,096
Amounts payable to other Group companies	1,036,611	832,862
Accruals	50,024	42,627
Deferred income	5,241	5,233
Other payables	22,400	19,755
	1,209,959	1,006,483

At 30 June 2011 the Company had borrowed £95,683,000 from its ultimate parent company (30 June 2010 £94,096,000), the balance of this loan is repayable on demand and bears interest at six month LIBOR plus 1.00%.

In June 2009 the Company entered into a revolving credit facility ("RCF") of £750 million with BSkyB Finance Limited whereby it is the borrower and BSkyB Finance Limited is the lender. This RCF is non interest bearing and is repayable on demand. At 30 June 2011, the Company had borrowed £698,002,000 under the RCF (30 June 2010 £401,137,000), which is included within amounts owed to other Group companies.

In July 2009 the Company entered into a loan agreement with BSkyB Finance Limited whereby it is the borrower and BSkyB Finance Limited is the lender. At 30 June 2011 the balance of this loan was £47,320,000 (30 June 2010 £47,320,000). This loan is non interest bearing and is repayable on demand.

Other trade balances due to other Group companies totalling £291,289,000 (30 June 2010 £384,405,000) are repayable on demand and bear no interest.

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

Notes to the financial statements

16. Provisions

	At 1 July 2009	Utilised during the year	At 30 June 2010	Utilised during the year	At 30 June 2011
	£'000	£'000	£'000	£'000	£'000
Current liabilities					
Provisions	60	(24)	36	(15)	21
Non-current liabilities					
Provisions	252	(115)	137	(35)	102

The current and non-current provisions relate to amounts provided for onerous contracts for property leases

17. Financial risk management objectives and policies

The Company's principal financial instruments comprise trade and other payables, trade receivables and other receivables and cash and cash equivalents. The accounting classification of each class of the Company's financial assets and financial liabilities, is as follows

	Loans and receivables £'000	Other liabilities £'000	Total carrying value £'000	Total fair values £'000
At 30 June 2011				
Trade and other payables	-	(1,183,618)	(1,183,618)	(1,183,618)
Provisions	-	(123)	(123)	(123)
Trade and other receivables	1,183,560	-	1,183,560	1,183,560
Cash and cash equivalents	1,167	-	1,167	1,167
At 30 June 2010				
Trade and other payables	-	(981,520)	(981,520)	(981,520)
Provision	-	(173)	(173)	(173)
Trade and other receivables	1,005,855	-	1,005,855	1,005,855
Cash and cash equivalents	3,010	-	3,010	3,010

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments

The Company's principal market risk is exposure to changes in interest rates, which arises primarily from the Company's inter-company balances

Interest rate risk

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative financial instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A one percentage point increase or decrease represents management's assessment of the reasonably possible change in interest rates

Notes to the financial statements

17. Financial risk management objectives and policies (continued)

If interest rates had been one percentage point higher and all other variables were held constant, the Company's profit for the year ended 30 June 2011 would decrease by £544,000 (2010 decrease by £533,000)

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 Company's actual exposure to market rates is constantly changing as the Company's portfolio of debt, foreign currency and equity 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 Company. The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

Liquidity risk

The Company's financial liabilities are shown in notes 15 and 16.

The following table analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 12 months £'000	Between one and two years £'000	Between two and five years £'000
At 30 June 2011			
Trade and other payables	1,183,618	-	-
Provisions	21	93	9
At 30 June 2010			
Trade and other payables	981,520	-	-
Provisions	36	36	101

Credit risk

The Company is exposed to default risk amounting to cash and cash equivalents of £1,167,000 (2010 £3,010,000). The Company's maximum exposure to credit risk on trade receivables is the carrying amounts disclosed in note 14.

Capital Risk Management

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

Risk and treasury management is governed by BSKyB Group plc's policies approved by its Board of Directors.

Notes to the financial statements

18. Share capital

	2011 £'000	2010 £'000
Allotted, called-up and fully paid		
1,576,000 (2010 1,576,000) ordinary shares of £1 each	1,576	1,576

Share option and contingent share award schemes

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

The awards outstanding can be summarised as follows

Scheme	2011 Number of ordinary shares	2010 Number of ordinary shares
Executive Share Option Scheme options (i)	23,903	325,443
Sharesave Scheme options (ii)	797,520	718,768
All Employee awards (iii)	190,995	226,179
Management LTIP awards (iv)	141,619	75,433
	1,154,037	1,345,823

(i) Executive Share Option Scheme options

All Executive Share Option Scheme options outstanding at 30 June 2011 and 30 June 2010 have vested. No options have been granted under the scheme since 2004. Grants under the Executive Share Option Scheme were made on an annual basis to selected employees, with the exercise price of options being equal to the BSkyB'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 options

All Sharesave Scheme options outstanding at 30 June 2011 and 30 June 2010 have no performance criteria attached, other than the requirement that the employee remains in employment with the Group. Options granted under the Sharesave Scheme must be exercised within six months of the relevant award vesting date. The Sharesave Scheme is open to all employees. Options are normally exercisable after either three or five years from the date of grant. The price at which options are offered is not less than 80% of the middle-market price on the dealing day immediately preceding the date of invitation. It is the policy of the Group to make an invitation to employees to participate in the scheme following the announcement of the end of year results.

(iii) All Employee awards

The All Employee awards outstanding at 30 June 2011 and 30 June 2010 have no performance criteria attached, other than the requirement that the employee remains in employment with the Group. Awards granted under the All Employee award will be exercised upon the award vesting date. BSkyB granted the All Employee award to all permanent employees on 5 February 2009. Awards under the scheme are granted in the form of a nil-priced option, and are satisfied using market-purchased shares.

Notes to the financial statements

18. Share capital (continued)

(iv) Management LTIP awards

All Management LTIP awards outstanding at 30 June 2011 and 30 June 2010 vest only if performance conditions are met. Awards granted under the Management LTIP must be exercised within five years of the relevant award vesting date. The Company grants awards to selected employees under the Management LTIP. Awards under this scheme mirror the LTIP, with the same performance conditions. Awards exercised under the Management LTIP can only be satisfied by the issue of market-purchased shares.

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

	2011	2011	2010	2010
	Number of	Weighted	Number of	Weighted
	shares	average	shares	average
	under option	exercise price	under option	exercise price
Outstanding at 1 July	1,345,823	£4.56	1,307,268	£4.57
Granted during the year	351,906	£4.50	367,226	£3.99
Exercised during the year	(124,399)	£4.28	(133,538)	£3.35
Forfeited during the year	(125,221)	£3.94	(153,878)	£4.19
Expired during the year	(294,072)	£9.69	(41,255)	£4.99
Outstanding at 30 June	1,154,037	£3.33	1,345,823	£4.56

The weighted average market price of BSkyB Group plc's shares at the date of exercise for share options exercised during the year was £7.85 (2010: £5.50).

Notes to the financial statements

18. Share capital (continued)

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

	2011		2010	
		Weighted average remaining contractual life		Weighted average remaining contractual life
Range of Exercise Prices	2011 Number	years	2010 Number	years
£0.00-£1.00	332,615	1.2	301,612	1.7
£3.00-£4.00	244,382	1.6	282,084	2.6
£4.00-£5.00	270,399	2.6	353,895	3.4
£5.00-£6.00	286,447	3.8	89,432	1.9
£6.00-£7.00	2,890	2.2	6,490	3.2
£7.00-£8.00	17,304	0.3	26,187	1.4
£9.00-£10.00	-	-	286,123	0.4
	1,154,037	2.3	1,345,823	2.1

The exercise prices of options outstanding at 30 June 2011 ranged from £nil to £7.94

Information for awards granted during the year

The weighted average fair value of equity-settled share options granted during the year, as estimated at the date of grant, was £5.95 (2010: £1.91). This was calculated using the Black-Scholes share option pricing model, except for grants of nil-priced options, which were treated as the award of a free share. The fair value of nil-priced options granted during the year was measured on the basis of the market-price of BSKYB's shares on the date of grant, discounted for expected dividends which would not be received over the vesting period of the options.

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

Weighted average fair value assumptions

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

	2011	2010
Share Price	£7.11	£5.72
Exercise Price	£0.77	£3.99
Expected volatility	28.1%	28.3%
Expected life	3.2 years	4.0 years
Expected dividend	2.6%	3.1%
Risk-free interest rate	1.5%	2.3%

Notes to the financial statements

19. Notes to the Cash Flow Statement

Reconciliation of profit before tax to cash used in operations

	2011 £'000	2010 £'000
Profit before tax	79,717	90,184
Depreciation of property, plant and equipment	1,503	3,876
Amortisation of intangible assets	5,341	8,379
Share-based payment expense	935	780
Net finance costs	971	1,433
	88,467	104,652
Increase in trade and other receivables	(264,605)	(373,288)
Increase in inventories	(25,998)	(3,719)
(Decrease)increase in trade and other payables	(94,977)	185,577
Decrease in provisions	(50)	(139)
Cash used in operations	(297,163)	(86,917)

20. Capital contracted commitments, contingencies and guarantees

Future expenditure contracted for but not recognised in the financial statements

At the end of the year the Company had £51,052,000 that was contracted for but not provided in the accounts (2010 £nil), which is expected to be settled within twelve months of the balance sheet date

Guarantees

The Company, together with Sky Subscribers Services Limited, BSKyB Finance UK plc and British Sky Broadcasting Limited has given joint and several guarantees in relation to the £750 million RCF held by its parent undertaking, BSKyB

The Company, together with Sky Subscribers Services Limited, BSKyB Finance UK plc and British Sky Broadcasting Limited has given joint and several guarantees in relation to the issue in the public debt market of US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018, US\$750 million of 6.100% Guaranteed Notes repayable in February 2018 and £300 million of 6.000% Guaranteed Notes repayable in May 2027 and issued by its parent undertaking, BSKyB Group plc

The Company, together with BSKyB Group plc, Sky Subscribers Services Limited and British Sky Broadcasting Limited has given joint and several guarantees in relation to the issue in the public debt market of US\$750 million of 5.625% Guaranteed Notes repayable in October 2015, £400 million of 5.750% Guaranteed Notes repayable in October 2017 and US\$350 million of 6.500% Guaranteed Notes repayable in October 2035 and issued by BSKyB Finance UK plc

Notes to the financial statements

21. Operating lease commitments

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

	2011 £'000	2010 £'000
Within one year	8,306	10,406
Between one and two years	4,574	4,742
Between two and three years	2,104	2,695
Between three and four years	576	2,401
Between four and five years	-	492
	15,560	20,736

The majority of operating leases relate to plant and machinery in relation to engineers' vans

22. Transactions with related parties and major shareholders of BSkyB

The Company conducts business transactions with other fellow Group undertakings

	2011 £'000	2010 £'000
Supply of services by the Company	706,626	868,879
Purchases of goods/services by the Company	(65,778)	(177,129)

For details of amounts owed by and owed to subsidiaries, see note 14 and note 15

Principal services supplied to fellow subsidiary undertakings

- Installation and maintenance of satellite television receiving and related equipment to British Sky Broadcasting Limited

- Subsidy of set-top boxes supplied by Marketing Contributions Limited

Principal goods/services purchased from fellow subsidiary undertakings

- Subscriber management services supplied by Sky Subscriber Services Limited and Amstrad Limited

The Group's treasury function is responsible for liquidity management across the Group's operations. It is standard practice for the Company to lend and borrow cash to and from subsidiaries as required. Under this policy, British Sky Broadcasting Limited settled liabilities of £401 million (2010: £507 million) on behalf of the Company during the year.

On 15 June 2010, News Corporation announced a proposal relating to a possible offer for the entire share capital of BSkyB not already owned by News Corporation. On 13 July 2011, this proposal was withdrawn.

Notes to the financial statements

23. Ultimate parent undertaking

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

The consolidated accounts of the Group are available to the public and may be obtained from the Company Secretary, British Sky Broadcasting Group plc, Grant Way, Isleworth, Middlesex, TW7 5QD.

24. Post balance sheet event

On 15 June 2010, News Corporation announced a proposal relating to a possible offer for the entire share capital of BSkyB not already owned by News Corporation. On 13 July 2011, this proposal was withdrawn.