BRITISH SKY BROADCASTING LIMITED

Annual report and financial statements
For the year ended 30 June 2014

Registered number: 02906991

Directors and Officers

For the year ended 30 June 2014

Directors

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

A J Griffith
C J Taylor

Secretary

C J Taylor

Registered office

Grant Way
Isleworth
Middlesex
TW7 5QD

Auditor

Deloitte LLP
Chartered Accountants
London
United Kingdom

Strategic Report

The Directors present their Strategic and Directors' Reports on the affairs of the Company, together with the financial statements and Auditor's Report for the year ended 30 June 2014.

The purpose of the Strategic Report is to inform members of the Company and help them assess how the directors have performed their duty under section 172 of the Companies Act 2006 (duty to promote the Company).

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 operates the leading pay television broadcasting service in the United Kingdom ("UK") and Ireland as well as broadband and telephony services. The Company's principal activities consist of the operation and distribution of wholly-owned television channels via a direct-to-home ("DTH") service and it supplies certain of those channels to cable operators for retransmission to their subscribers in the UK and Ireland.

During the year, the Company performed a share premium reduction of £1,256 million.

During the year, due to a group reorganisation, the trade and assets of Acetrax AG were transferred to the Company, including intangible assets. Acetrax AG is a 100% wholly owned indirect subsidiary of the Company. In addition, some trade and assets of the Sky News business were transferred from the Company to BSkyB SNI Limited, a wholly-owned subsidiary of the Company, including property, plant and equipment.

At 30 June 2014, the total number of TV customers in the UK and Ireland was 10,686,000 (2013: 10,422,000) representing a net increase of 264,000 TV customers in the current year. Including standalone home communications services, the total number of customers was 11,495,000 (2013: 11,153,000), representing a net increase of 342,000 customers in the current year.

This year the Company made an operating profit of £634 million (2013: £809 million). The operating margin decreased to 8.66% in 2014 (2013: 11.58%). The decrease in operating margin is a result of increased investment in content and marketing costs and the integration of the acquired O2 customer base.

The total revenue in 2014 was £7,320 million, a 4.80% growth from fiscal 2013 (2013: £6,985 million). The Company's revenue can be analysed as follows:

For the year to 30 June	**2014 £m**	2013 £m
Retail subscription	**6,230**	5,951
Advertising	**487**	454
Wholesale subscription	**418**	394
Installation, hardware and service	**36**	32
Other	**149**	154
Revenue	**7,320**	6,985

Business review and principal activities (continued)

The increase of £279 million in retail subscription revenue in the current year was driven by continued product and customer growth and the benefit of price increases in the year. The Company's investments in connected services are paying back, driven by a strong performance from Sky Store which saw revenues more than double on last year.

Advertising revenue increased by £33 million in the current year through a combination of market growth, share gains through our consolidation of two small sales houses in this financial year and a first time contribution from AdSmart.

Wholesale subscription revenue increased by £24 million in the current year as renewed carriage agreements and price increases were partially offset by lower customer volumes on third party platforms.

Operating expenses for the year

The Company's operating expense can be analysed as follows:

For the year to 30 June

	2014	2013
	£m	£m
Programming	**2,652**	2,472
Transmission, technology and fixed networks	**1,410**	1,229
Marketing	**1,461**	1,343
Subscriber management and supply chain	**462**	435
Administration	**701**	697
Operating expenses	**6,686**	6,176

The increase of £180 million in programming costs is due to increased investment across most categories, predominantly sport programming given the Company's investment in a large number of renewed and new rights agreements. Movies costs increased from a broader grant of rights facilitating new propositions like NOW TV, Sky Go Extra and Sky Store, while payments to third party channel providers were lower than prior year as the Company negotiated more favourable terms on several renewed agreements.

Transmission, technology and fixed network costs have increased by £181 million as the Company continued to grow its customer base and the cost base associated with the acquired O2 broadband business.

Marketing costs increased by £118 million in the current year as the result of the increased growth of paid-for products compared to last year and promotions behind the Company's drive to connect its base of set-top boxes.

Subscriber management and supply chain costs increased by £27 million as the Company continued to see strong growth in products and customers, invested in its connected services and integrated the acquired O2 customers into the Sky base.

Net assets at the balance sheet date were £1,274 million, a decrease of £350 million from £1,624 million at 30 June 2013. The decrease in the net assets in a year is primarily due to the increase in the intercompany trade payables.

Business review and principal activities (continued)

Current assets increased in a year by £294 million to £7,472 million (2013: £7,178 million). The increase is primarily due to the increase in the intercompany loans.

The audited accounts for the year ended 30 June 2014 are set out on pages 12 to 65. The Directors do not recommend the payment of a final dividend for the year ended 30 June 2014 (2013: nil). For the year ended 30 June 2014 there was a £622 million interim distribution made to BSkyB (2013: £946 million). The distribution was settled by the assignment of intercompany debt within the BSkyB Group.

There have not been any significant changes in the Company's activities in the year under review. The Directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

Post balance sheet events

Two indirect subsidiaries of the Company announced on 25 July 2014 that they have conditionally entered into share purchase agreements (the "Acquisition Agreements") with Twenty First Century Fox, Inc. (and its relevant subsidiaries) to acquire its 100% stake in Sky Italia Srl and its 57.4% stake in Sky Deutschland A.G. One indirect subsidiary further announced its intention to make a voluntary cash offer ("the Offer") to the minority shareholders of Sky Deutschland A.G. The Acquisition Agreements and the Offer (together the "Transactions") are conditional on, amongst other things, their approval by the Group's independent shareholders and regulatory clearances.

The total consideration for the acquisition of Sky Italia is £2.45 billion with approximately £2.07 billion to be paid in cash and the balance to be satisfied through the transfer of the Group's 21% stake in National Geographic Channel to Twenty First Century Fox, Inc ("21CF"). The acquisition of 21CF's shareholding in Sky Deutschland A.G is for a consideration of £2.9 billion in cash, valuing Sky Deutschland at €6.75 a share. Subject to the number of Sky Deutschland A.G minority shareholders that accept the Offer, the total consideration for the transaction will range from £2.9 billion to £5 billion.

For further details, see note 29.

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.

The Group's KPIs are disclosed separately in the Annual Report, please see note 28.

Principal risks and uncertainties

The Company's business is heavily regulated and changes in regulations, changes in interpretation of existing regulations or failure to obtain required regulatory approvals or licences could adversely affect the Company's ability to operate or compete effectively. The Company's business is reliant on technology which is subject to the risk of failure, change and development. The Company operates in a highly competitive environment that is subject to rapid change and it must continue to invest to remain competitive. The failure of key suppliers could affect the Company's ability to operate as a business. The Company relies on a number of third parties and outsourced suppliers to support its supply chain. The Company's business is based on a subscription model and its future success relies on building long-term relationships with its customers. The Company generates wholesale revenue principally from one customer.

Principal risks and uncertainties (continued)

The Group's principal risks and uncertainties are disclosed in the Group's Annual Report, please see note 28 for further information.

Financial risk management objectives and policies

The Company activities expose it to a number of financial risks including market risk, credit risk and liquidity risk. The use of financial derivatives is governed by the Group's treasury policy approved by the Board of Directors, which provide written principles on the use of financial derivatives to manage these risks. The Company does not use derivative financial instruments for speculative purposes. Refer to note 21 for further information.

Market Risk

The Company's principal market risks are exposure to changes in interest rates and foreign exchanges rates, which arise both from the Company's sources of finance and its operations.

Interest rate risk

The Company has financial exposure to UK interest rates arising from the investment of surplus cash and various loan balances with other companies within the BSkyB Group. The Group's Treasury function monitors the Company's exposure to fluctuations in interest rates.

Foreign exchange risk

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates. The Company uses foreign exchange forward contracts and options to hedge these exposures. Refer to note 21 for further information.

Price Risk

The Company is not exposed to significant price risk.

Credit risk

The Company's principal financial assets are cash, cash equivalents, short-term deposits, trade and other receivables and derivative financial assets.

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

The credit risk on cash, cash equivalents, and short-term deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. No more than 10% of cash deposits are held with a single bank counterparty, with the exception of overnight deposits which are invested in a spread of AAA-rated liquidity funds. The balance sheet of the Company includes intercompany balances and the Company is therefore exposed to credit risk on these balances. The intercompany balances of the Company are detailed in notes 15 and 16.

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

Principal risks and uncertainties (continued)

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 £743 million revolving credit facility which is due to expire on 31 October 2018. The Company benefits from this liquidity through intra-group facilities and loans.

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 9,233 (2013: 8,323).

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.

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.

Employment policies (continued)

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 uses an employee engagement survey to enable the Company to benchmark itself against other UK companies and specifically against high performing companies.

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 (88%), the Company has improved over the last two years and outperformed an independent external benchmark of other blue chip companies.

Diversity

The Company treats all people equally, fairly, with respect and without prejudice. Decisions about people's employment with the Company are based on ability, performance and qualifications. This principle also applies when the Company makes decisions about development, promotion, pay and benefits.

The Company delivers some of the most diverse content and services available to a wide range of consumers and it values the same diversity within the business and promotes a culture of opportunity for all, regardless of background. The Company does not tolerate unfair treatment or discrimination at work based on ethnicity, gender, age, religion, disability or sexual orientation.

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.

Employment policies (continued)

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.

By Order of the Board,

C J Taylor
Company Secretary
Grant Way
Isleworth
Middlesex
TW7 5QD

7 November 2014

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

The Directors do not recommend the payment of a final dividend in the current year (2013: nil).

The Company has chosen, in accordance with section 414C(11) of Companies Act 2006, to include such matters of strategic importance to the Company in the Strategic Report which otherwise would be required to be disclosed in the Director's report.

Going concern
After making enquiries, the Directors have formed a judgement at the time of approving the financial statements that the Company will have access to adequate resources to continue in existence for the foreseeable future. In making this decision the Directors have considered the net current asset position of the company, and confirmation received from BSkyB Finance Limited, for at least 12 months from the date of signing these financial statements, they will not demand payment of any amounts owed to them by the company where such repayment would prevent the company from continuing to settle its third party liabilities as they fall due. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

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 was approved by the Board of Directors on 7 November 2014.

By Order of the Board,

C J Taylor
Company Secretary
Grant Way
Isleworth
Middlesex
TW7 5QD
7 November 2014

Statement of Directors' responsibilities

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

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

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

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

Auditor's Report

Independent Auditor's report to the members of British Sky Broadcasting Limited:

We have audited the financial statements of British Sky Broadcasting Limited for the year ended 30 June 2014 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 29. 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 Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (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 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.

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 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Separate opinion in relation to IFRSs as issued by the IASB

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

In our opinion the 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 Strategic Report and 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.

W Touche

William Touche (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
7th November 2014

Income Statement

For the year ended 30 June 2014

	Notes	2014 £m	2013 £m
Revenue	2	**7,320**	6,985
Operating expense	3	**(6,686)**	(6,176)
Operating profit		**634**	809
Investment income	5	**6**	13
Income from shares in subsidiary undertakings	5	**32**	350
Finance costs	5	**(102)**	(92)
Impairment of investment	4	**(202)**	(49)
Profit before tax	6	**368**	1,031
Tax	8	**(97)**	(162)
Profit for the year attributable to equity shareholder		**271**	869

The accompanying notes are an integral part of this Income Statement.

All results relate to continuing operations.

Statement of Comprehensive Income

For the year ended 30 June 2014

	2014 £m	2013 £m
Profit for the year attributable to equity shareholder	**271**	869
Other comprehensive income		
Amounts recognised directly in equity that may subsequently be recycled to the income statement		
Loss on revaluation of available-for-sale investments	**(1)**	-
Loss on cash flow hedges	**(10)**	(11)
Tax credit on cash flow hedges	**3**	3
	(8)	(8)
Amounts reclassified and reported in the income statement		
Gain (loss) on cash flow hedges	**2**	(11)
Tax (charge) credit on cash flow hedges	**(1)**	2
	1	(9)
Other comprehensive loss for the year (net of tax)	**(7)**	(17)
Total comprehensive income for the year attributable to equity shareholder	**264**	852

All results relate to continuing operations.

Balance Sheet

As at 30 June 2014	Notes	2014 £m	2013 £m
Non-current assets			
Intangible assets	9	**480**	381
Goodwill	10	**88**	88
Property, plant and equipment	11	**729**	671
Deferred tax assets	13	**13**	28
Trade and other receivables	15	**39**	48
Investment in subsidiaries	12	**1,395**	1,567
Derivative financial assets	20	**37**	19
Available-for-sale investments		**8**	4
		2,789	2,806
Current assets			
Inventories	14	**489**	471
Trade and other receivables	15	**5,630**	5,357
Short-term deposits		**295**	595
Cash and cash equivalents		**1,028**	734
Derivative financial assets	20	**30**	21
		7,472	7,178
Total assets		**10,261**	9,984
Current liabilities			
Trade and other payables	16	**8,695**	8,063
Borrowings	19	**3**	3
Current tax liabilities		**126**	173
Provisions	17	**22**	15
Derivative financial liabilities	20	**46**	17
		8,892	8,271
Non-current liabilities			
Trade and other payables	18	**49**	57
Borrowings	19	**4**	6
Provisions	17	**7**	6
Derivative financial liabilities	20	**35**	20
		95	89
Total liabilities		**8,987**	8,360
Share capital	22	**10**	10
Share premium	23	**-**	1,256
Reserves	23	**1,264**	358
Total equity attributable to equity shareholder	23	**1,274**	1,624
Total liabilities and shareholder's equity		**10,261**	9,984

The accompanying notes are an integral part of this Balance Sheet. The financial statements of British Sky Broadcasting Limited, registered number 02906991, were approved by the Board of Directors on 7 November 2014 and were signed on its behalf by:

A J Griffith, Director, 7 November 2014

Cash Flow Statement

For the year ended 30 June 2014

	Note	2014 £m	2013 £m
Cash flows from operating activities			
Cash generated from operations	24	**1,633**	1,654
Interest received		**4**	13
Tax paid		**(237)**	(295)
Net cash from operating activities		**1,400**	1,372
Cash flows from investing activities			
Net funding to the Group's joint ventures and associates		**(6)**	(4)
Dividends received from the Group's joint ventures and associates		**32**	43
Purchase of property, plant and equipment		**(165)**	(117)
Purchase of intangible assets		**(190)**	(144)
Purchase of subsidiaries		**(20)**	(197)
Purchase of available-for-sale investments		**(5)**	-
Decrease in short-term deposits		**300**	115
Receipts from loans to subsidiaries		**-**	5
Net cash used in investing activities		**(54)**	(299)
Cash flows generated from financing activities			
Net proceeds from Group borrowings		**-**	498
Purchase of shares for Group ESOP		**(164)**	(69)
Share buyback for BSkyB Group plc shares		**(266)**	(627)
Interest paid on behalf of the BSkyB Group		**(137)**	(128)
Dividends paid to BSkyB Group plc shareholders		**(485)**	(441)
Net cash used in financing activities		**(1,052)**	(767)
Net increase in cash and cash equivalents		**294**	306
Cash and cash equivalents at the beginning of the year		**734**	428
Cash and cash equivalents at the end of the year		**1,028**	734

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

Statement of Changes in Equity

For the year ended 30 June 2014

	Share capital £m	Share premium £m	Hedging reserve £m	Available-for-sale reserve £m	Retained earnings £m	Total shareholder's equity £m
At 1 July 2012	**10**	**1,256**	**17**	**-**	**427**	**1,710**
Profit for the year	-	-	-	-	869	869
Recognition and transfer of cash flow hedges	-	-	(22)	-	-	(22)
Tax on items taken directly to equity	-	-	5	-	-	5
Total comprehensive income for the year	**-**	**-**	**(17)**	**-**	**869**	**852**
Tax on items taken directly to equity	-	-	-	-	8	8
Distribution to parent company	-	-	-	-	(946)	(946)
At 30 June 2013	**10**	**1,256**	**-**	**-**	**358**	**1,624**
Profit for the year	-	-	-	-	271	271
Revaluation of available-for-sale investments	-	-	-	(1)	-	(1)
Recognition and transfer of cash flow hedges	-	-	(8)	-	-	(8)
Tax on items taken directly to equity	-	-	2	-	-	2
Total comprehensive income for the year	**-**	**-**	**(6)**	**(1)**	**271**	**264**
Tax on items taken directly to equity	-	-	-	-	8	8
Distribution to parent company	-	-	-	-	(622)	(622)
Share premium reduction	-	(1,256)	-	-	1,256	-
At 30 June 2014	**10**	**-**	**(6)**	**(1)**	**1,271**	**1,274**

For a description of the nature and purpose of the hedging reserve, see note 21.

Notes to the financial statements

1. Accounting policies

British Sky Broadcasting Limited (the "Company") is a limited liability company incorporated in the United Kingdom and registered in England and Wales.

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 an historical cost basis, except for the remeasurement to fair value of certain financial assets and liabilities as described in the accounting policies below. The Company has adopted the new accounting pronouncements which became effective this period, none of which had any significant impact on the Company's results or financial position. This includes the adoption of IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12, "Disclosure of Interests in Other Entities", amendments to IAS 28, "Investments in Associates and Joint Ventures" and IFRS 13, "Fair Value Measurement" where adoption on 1st July 2013 is considered to be early adoption for the purposes of complying with IFRS as endorsed by the European Union. The financial statements have been prepared on a going concern basis (as set out in the Directors' Report).

The Company maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal year 2014, this date was 29 June 2014, this being a 52 week year (fiscal year 2013: 30 June 2013, 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.

The Company has taken advantage of the exemption from preparing the consolidated accounts afforded by section 400 of the Companies Act 2006, because it is a wholly-owned subsidiary of BSkyB which prepares consolidated accounts which are publicly available (see note 28).

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 at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated 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 the profit or loss 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.

Notes to the financial statements

1. Accounting policies (continued)

d) Intangible assets

Research expenditure is recognised in the 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 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.

Other intangible assets, which are acquired by the Company 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 expenses on a straight-line basis over the intangible asset's estimated useful life, principally being a period of between 3 and 25 years, unless the asset life is judged to be indefinite. During the year the Company revised the estimated useful life of certain intangible assets. The revisions were accounted for prospectively as a change in accounting estimate and as a result the amortisation charge in the current year has decreased by £15 million. If the useful life is indefinite or the asset is not yet available for use, no amortisation is charged and an impairment test is carried out at least annually. Other intangible assets are tested for impairment in line with accounting policy j) below.

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

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

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 Company'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.

Notes to the financial statements

1. Accounting policies (continued)

f) 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.

g) Derivative financial instruments and hedging activities

The Company uses derivative financial instruments to hedge its exposure to fluctuations in 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under IFRS 13 "Fair Value Measurement". The Company calculates a separate credit valuation adjustment ('CVA') or debit valuation adjustment ('DVA') for each derivative based upon the net position for each counterparty relationship. The Company calculates the CVA where it has a net asset position using a quoted credit default swap curve for the counterparty and calculates the DVA where it has a net liability position using an industry proxy credit default swap curve for the Company. The fair value of derivative financial instruments is calculated by discounting future cash flows with reference to the benchmark Libor curve, adjusted by the relevant credit default swap curve.

Certain derivatives held by the Company 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, and are subject to cash flow hedge accounting. In certain circumstances, only the intrinsic value of a derivative has been designated as a cash flow hedge, with the remaining fair value not designated as a cash flow hedge. Certain other derivatives held by the Company 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 Company 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 Company'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 Company'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 Company'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

1. Accounting policies (continued)

g) Derivative financial instruments and hedging activities (continued)

i. Derivatives that qualify for cash flow hedge accounting (continued)

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 Company 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. 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.

h) Inventories

i. Acquired and commissioned television programme rights

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

Programming rights are included as inventories when the legally enforceable licence period commences and all of the following conditions have been met: (a) the cost of each programme is known or reasonably determinable; (b) the programme material has been accepted by the Company 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 inventory on the Company's Balance Sheet but 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% recognised in the income statement on the first broadcast or, where contracts provide for sports rights for multiple seasons or competitions, such rights are principally recognised on a straight-line basis across the seasons or competitions.

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

Notes to the financial statements

1. Accounting policies (continued)

h) Inventories (continued)

i. Acquired and commissioned television programme rights (continued)

General entertainment – the cost is recognised in the income statement based on the expected profile of transmission.

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

Where programme rights are surplus to the Company'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 expenses.

ii. Set-top boxes, routers and related equipment

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

i) Financial assets and liabilities

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

i. Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments and are measured at amortised cost using the effective interest method. Trade and other receivables, with no stated interest rate, are measured at the original invoice amount if the effect of discounting is immaterial. An allowance account is maintained to reduce the carrying value of trade and other receivables for impairment losses identified from objective evidence, with movements in the allowance account, either from increased impairment losses or reversals of impairment losses, being recognised in the income statement.

ii. Cash and cash equivalents

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

1. Accounting policies (continued)

i) Financial assets and liabilities (continued)

iii. Short-term deposits

This includes short-term deposits and commercial paper which have maturity dates of more than three months from inception. These deposits are initially recognised at fair value and then carried at amortised cost or fair value through the income statement less any allowance for impairment losses.

iv. 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.

v. 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.

vi. 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 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.

j) Impairment

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

An impairment is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of net selling price, defined as the fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Company 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 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. An impairment to goodwill is not reversed.

Notes to the financial statements

1. Accounting policies (continued)

k) 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 of the balance sheet date. Provisions are discounted if the effect of the time value of money is material using a pre-tax market rate adjusted for risks specific to the liability.

l) 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 sources of revenue are recognised as follows:

– Retail subscription revenue, including subscriptions for DTH 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 the cable retailers and is based on the number of subscribers taking the Sky channels, as reported to the Company by the cable retailers, and the applicable rate card or contract.

– Advertising sales revenue is recognised when the advertising is broadcast. Revenue generated from airtime sales, where Sky acts as an agent on behalf of third parties, is recognised on a net commission basis.

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

– Other revenue principally includes income from technical platform services. Other revenue is recognised, net of any discount given, when the relevant goods or service are provided.

Revenue is measured at the fair value of the consideration received or receivable. When the Company 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 Company recognises for delivered elements is limited to the cash received.

m) Employee benefits

Wages, salaries and social security contributions

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

Pension obligations

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

Notes to the financial statements

1. Accounting policies (continued)

m) Employee benefits (continued)

Termination benefits

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

Equity compensation benefits

The Company issues equity-settled share-based payments to certain employees which must be measured at fair value and recognised as an expense in the income statement, with a corresponding increase in equity in the case of equity-settled payments, and liabilities in the case of cash-settled awards. The fair values of equity-settled payments are measured at the dates of grant using option-pricing models, taking into account the terms and conditions upon which the awards are granted. Share-based payments are measured at their fair value as at the balance sheet date. The fair value is recognised over the period during which employees become unconditionally entitled to the awards, subject to the 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 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 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.

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.

The Company as lessor

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

The Company as lessee

Assets held under finance leases are recognised as assets of the Company at their fair value on the date of acquisition, or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reductions of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. The lease expense arising from operating leases is charged to the income statement on a straight-line basis over the term of the lease, unless another systematic basis is more appropriate. Benefits received and receivable as incentives to enter into operating leases are recorded on a straight-line basis over the lease term.

Notes to the financial statements

1. Accounting policies (continued)

o) 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 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 tax authority and the Company intends to settle its current tax assets and liabilities on a net basis.

p) Dividends

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

Notes to the financial statements

1. Accounting policies (continued)

q) Critical accounting policies

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

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

i. Revenue (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 Company 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 Company recognises for delivered elements is limited to the cash received.

ii. Tax, including deferred taxation

- 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 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 accrued are based on management's interpretation of country specific tax law and the likelihood of settlement. Tax benefits are not recognised unless it is probable that the tax positions will be sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of the likely resolution of the issue through negotiation and/or litigation.
- The amounts recognised in the financial statements in respect of each matter are derived from the Company'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 Company would be required to make an adjustment in a subsequent period which could have a material impact on the Company'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. Intangible assets and property, plant and equipment (see notes 9 and 11)

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

Notes to the financial statements

1. Accounting policies (continued)

q) Critical accounting policies (continued)

iii. Intangible assets and property, plant and equipment (continued)

- Assessing whether assets meet the required criteria for initial capitalisation requires judgement. This requires a determination of whether the assets will result in future benefits to the Company.

In particular, internally generated intangible assets must be assessed during the development phase to identify whether the Company has the ability and intention to complete the development successfully.

iv. Programming inventory (see note 14)

The key area of accounting for programming inventory requiring judgement is the assessment of the appropriate profile over which to amortise general entertainment programming. This assessment requires the Company 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 Company considers the following factors:

The period over which the programme is expected to be shown on the Company'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 Company 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 Company holds their Broadcast rights.

The potential benefits associated with scheduling programming. Certain high-profile or high-quality programming titles have additional value to the Company, as they attract new customers and encourage retention of existing 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 Company's assessment of the potential impact of the publicly available information on its competitors' scheduling intentions against planned broadcasts.

Notes to the financial statements

1. Accounting policies (continued)

q) Critical accounting policies (continued)

vi. Goodwill (see note 10)

- Judgement is required in determining the fair value of identifiable assets, liabilities and contingent 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.

vii. Investments in subsidiaries (see note 12)

The Company reviews the carrying amounts of its investment to determine whether there is any indication that the investment has suffered an impairment loss.

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

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for our accounting periods beginning on or after 1 July 2014 or later periods. These new pronouncements are listed below:

- 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)
- Annual Improvements 2010-2012 cycle (effective 1 July 2014)*
- Annual Improvements 2011-2013 cycle (effective 1 July 2014)*
- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" (effective 1 January 2016)*
- Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation" (effective 1 January 2016)*
- IFRS 15 "Revenue from Contracts with Customers" (effective 1 January 2017)*
- IFRS 9 "Financial Instruments" (effective 1 January 2018)*

* not yet endorsed for use in the EU

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

	2014	2013
	£m	£m
Retail subscription	**6,230**	5,951
Advertising	**487**	454
Wholesale subscription	**418**	394
Installation, hardware and service	**36**	32
Other	**149**	154
	7,320	6,985

Revenue arises from goods and services provided to the United Kingdom, with the exception of £381 million (2013: £372 million) which arises from services provided to other countries.

3. Operating expense

	2014	2013
	£m	£m
Programming	**2,652**	2,472
Transmission, technology and fixed networks	**1,410**	1,229
Marketing	**1,461**	1,343
Subscriber management and supply chain	**462**	435
Administration	**701**	697
	6,686	6,176

4. Impairment of Investments

During the year as part of a Group reorganisation the Company reduced its investment in Sky Home Communications Limited ("Sky Home Communications") (charge of £202 million). During the year a substantial portion of the business of Sky Home Communications was transferred into the Company and accordingly the value of the Company's investment in Sky Home Communications was reduced.

During the prior year as part of an entity restructuring programme the Company wrote down its investments in BSkyB LLU Assets Limited (charge of £49 million).

Notes to the financial statements

5. Investment income and finance costs

	2014	2013
	£m	£m
Investment income		
Cash, cash equivalents and short-term deposits	**4**	8
Intercompany interest receivable(i)	**2**	5
Distribution received from subsidiaries(ii)	**32**	350
	38	363

	2014	2013
	£m	£m
Finance costs		
Intercompany interest payable(iii)	**(98)**	(91)
Remeasurement of other derivative financial instruments (not qualifying for hedge accounting)	**(4)**	(1)
	(102)	(92)

(i) Intercompany interest is receivable on certain loans to BSkyB Finance Limited (see note 15).

(ii) During 2014, the Company recognised dividend income of £32 million from subsidiary undertakings (2013: £350 million).

(iii) Intercompany interest payable includes interest on US$750m Guaranteed Notes at 6.100%, repayable in February 2018, US$582.8 million Guaranteed Notes at 9.500%, repayable in November 2018, £300 million Guaranteed Notes at 6.000%, repayable in May 2027, US$800m Guaranteed Notes at 3.125%, repayable in November 2022 and £503 million RCF agreement at 3.226%.

In October 2005, BSkyB Finance UK plc issued Guaranteed Notes. Intercompany interest is payable to BSkyB Finance UK plc on these Guaranteed Notes, consisting of US $750 million aggregate principal amount of notes paying 5.625% interest and maturing on 15 October 2015, £400 million aggregate principal amount of notes paying 5.750% interest and maturing on 20 October 2017 and US $350 million aggregate principal amount of notes paying 6.500% interest and maturing on 15 October 2035.

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 4.9% (2013: 5.2%) to expenditure on such assets. The amount capitalised in the current year amounted to £4 million (2013: £2 million).

6. Profit before tax

Profit before tax is stated after charging:

	2014 £m	2013 £m
Cost of inventories recognised as an expense	**1,872**	1,631
Depreciation and impairment of property, plant and equipment	**100**	93
Impairment of investment in subsidiaries	**202**	49
Amortisation and impairment of intangible assets	**100**	105
Rentals on operating leases and similar arrangements	**37**	43

Foreign exchange

Foreign exchange differences recognised in the income statement during the year amounted to a loss of £2 million (2013: loss of £1 million).

Audit fees

An analysis of auditor's remuneration is as follows:

	2014 £m	2013 £m
Total audit fees	**1**	-
Other services pursuant to legislation	**1**	1
Total non-audit fees	**1**	1
	2	1

Fees payable to the Company's auditor for the audit of the annual accounts were £0.3 million (2013: £0.3 million) and fees payable to the Company's auditor for settlement of audit fees on behalf of other group companies were £0.3 million (2013: £0.1 million).

Amounts paid to the auditor for non-audit related fees include audit related services of £0.2 million (2013: £0.3 million), taxation services of £0.5 million (2013: £0.3 million), other assurance services of £0.1 million (2013: £0.3 million), other advisory services of nil (2013: nil) and transaction services of £0.6 million (2013: £0.2 million).

7. Employee benefits and key management compensation

a) Company employee benefits

	2014	2013
	£m	£m
Wages and salaries	**434**	419
Social security costs	**60**	66
Costs of employee share option schemes (i)	**57**	76
Contributions to the BSkyB Pension Plan ("the Pension Plan") (ii)	**22**	15
	573	576

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

(ii) The Company operates a defined contribution pension scheme through the Pension Plan. The pension charge for the year represents the cost of contributions payable by the Company to the scheme during the year. The Company's amount payable to the scheme at 30 June 2014 was £4 million (2013: £1 million).

The average monthly number of full-time equivalent persons (including temporary employees) employed by the Company during the year was 9,233 (2013: 8,323).

	2014	2013
	Number	Number
Channels and services	**3,384**	2,611
Transmission and technology	**2,577**	2,980
Customer services, sales and marketing	**2,463**	1,932
Management and administration	**809**	800
	9,233	8,323

b) Key management compensation

	2014	2013
	£m	£m
Short-term employee benefits	**2**	3
Share-based payment expense	**2**	6
	4	9

Key management are defined as the Directors of the Company.

Notes to the financial statements

7. Employee benefits and key management compensation (continued)

b) Key management compensation (continued)

During the year the highest paid director was paid compensation of £1,605,034 . The highest paid director exercised 908,675 share options under share option schemes. Please refer to Note 21 for further information on Share option and contingent share award schemes.

8. Tax

a) Tax recognised in the income statement

	2014	2013
	£m	£m
Current tax expense		
Current year	**109**	215
Adjustment in respect of prior years	**(29)**	(32)
Total current tax charge	**80**	183
Deferred tax expense		
Origination and reversal of temporary differences	**15**	(21)
Adjustment in respect of prior years	**2**	-
Total deferred tax charge (credit)	**17**	(21)
Tax	**97**	162

b) Tax recognised directly in equity	**2014**	2013
	£m	£m
Current tax credit relating to share-based payments	**8**	2
Deferred tax credit relating to share-based payments	**-**	6
Deferred tax credit relating to cash flow hedges	**2**	5
	10	13

c) Reconciliation of total tax charge

The tax expense for the year is higher (2013: lower) than the standard blended rate of corporation tax in the UK (22.5%) (2013: 23.75%) applied to profit before tax. The differences are explained below:

	2014	2013
	£m	£m
Profit before tax	**368**	1,031
Profit before tax multiplied by blended rate of corporation tax in the UK of 22.5% (2013: 23.75%)	**83**	245
Effects of:		
Other permanent differences	**41**	(51)
Adjustments in respect of prior years	**(27)**	(32)
Tax	**97**	162

All tax relates to UK corporation tax.

9. Intangible assets

	Internally generated intangible assets	Software development (external) and software licenses	Other intangible assets	Internally generated intangible assets not yet available for use	Acquired intangible assets not yet available for use	Total
	£m	£m	£m	£m	£m	£m
Cost						
At 1 July 2012	168	158	85	42	27	480
Additions	79	34	5	24	2	144
Disposals	(3)	-	-	(1)	(7)	(11)
Transfers	48	16	-	(48)	(16)	-
At 30 June 2013	**292**	**208**	**90**	**17**	**6**	**613**
Additions	58	29	1	79	23	190
Transferred on Group reorganisation	4	2	-	3	-	9
Disposals	(16)	(9)	(2)	-	-	(27)
Transfers	42	9	2	(42)	(11)	-
At 30 June 2014	**380**	**239**	**91**	**57**	**18**	**785**
Amortisation						
At 1 July 2012	73	62	3	-	-	138
Amortisation for the year	57	36	3	-	-	96
Impairment	1	-	-	1	7	9
Disposals	(3)	-	-	(1)	(7)	(11)
At 30 June 2013	**128**	**98**	**6**	**-**	**-**	**232**
Amortisation for the year	60	34	5	-	-	99
Impairment	-	-	1	-	-	1
Disposals	(16)	(9)	(2)	-	-	(27)
At 30 June 2014	**172**	**123**	**10**	**-**	**-**	**305**
Carrying amounts						
At 30 June 2012	95	96	82	42	27	342
At 30 June 2013	164	110	84	17	6	381
At 30 June 2014	**208**	**116**	**81**	**57**	**18**	**480**

The Company's internally generated intangible assets relate to software development associated with the Company's customer management systems and set-top boxes. The Company's other intangible assets include certain assets with indefinite useful lives. The carrying value of these assets is £25 million (2013: £25 million).

9. Intangible assets (continued)

The transfer of the trade and assets of Acetrax AG to the Company during the year as part of a Group reorganisation resulted in the inclusion of the intangible assets of £9 million.

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

	2015	2016	2017	2018	2019
Estimated amortisation charge	132	118	93	55	20

10. Goodwill

On the 29 April 2012, the assets of Living TV Group Holdings Ltd, which was put into liquidation as part of a Group restructuring programme, were transferred to the Company in a common control transaction for consideration of £144 million. The net assets acquired were transferred at book value of £144 million. On transfer the carrying value of the goodwill was £18 million, and the carrying value of the intangible asset relating to the customer contract between Living TV Group Holdings and the Company was £70 million. This resulted in the recognition of £88 million of goodwill by the Company.

Notes to the financial statements

11. Property, plant and equipment

	Freehold land and buildings (i) £m	Leasehold improvements £m	Equipment, furniture and fixtures(ii) £m	Assets not yet available for use £m	Total £m
Cost					
At 1 July 2012	287	40	571	4	902
Additions	-	-	91	47	138
Disposals	-	-	(2)	-	(2)
Transfers	-	-	21	(21)	-
At 30 June 2013	**287**	**40**	**681**	**30**	**1,038**
Additions	4	-	47	120	171
Disposals	-	-	(23)	-	(23)
Transfers	32	-	34	(66)	-
Transfers out on Group reorganisation	-	-	(33)	-	(33)
At 30 June 2014	**323**	**40**	**706**	**84**	**1,153**
Depreciation					
At 1 July 2012	**25**	**22**	**229**	**-**	**276**
Depreciation	4	6	83	-	93
Disposals	-	-	(2)	-	(2)
At 30 June 2013	**29**	**28**	**310**	**-**	**367**
Depreciation	8	3	89	-	100
Disposals	-	-	(23)	-	(23)
Transfers out on Group reorganisation	-	-	(20)	-	(20)
At 30 June 2014	**37**	**31**	**356**	**-**	**424**
Carrying amounts					
At 30 June 2012	262	18	342	4	626
At 30 June 2013	258	12	371	30	671
At 30 June 2014	**286**	**9**	**350**	**84**	**729**

(i) Depreciation was not charged on £77 million of land (2013: £77 million).

(ii) The amounts shown include assets held under finance leases with a net book value of £7 million (2013: £8 million). The cost of these assets was £9 million (2013: £9 million) and the accumulated depreciation was £2 million (2013: £1 million). Depreciation charged during the year on such assets was £1 million (2013: £1 million)

The transfer of certain trade and assets of the Sky News business from the Company to BSkyB SNI Limited during the year as part of a Group reorganisation resulted in the transfer of the property, plant and equipment at a carrying amount of £13 million.

Notes to the financial statements

12. Investment in subsidiaries

Non-current loans and subscription for shares in subsidiaries

The movement in the year was as follows:

	Loans £m	**Shares £m**	**2014 £m**	2013 £m
Cost and funding				
Beginning of year	36	1,618	1,654	658
Subscription for shares	-	33	33	1,045
Impairment of investments	-	(202)	(202)	(49)
Working capital adjustment	-	(3)	(3)	-
End of year	**36**	**1,446**	**1,482**	1,654
Amounts provided				
Beginning of year	(5)	(82)	(87)	(87)
End of year	**(5)**	**(82)**	**(87)**	(87)
Net book value				
Beginning of year	31	1,536	1,567	571
End of year	**31**	**1,364**	**1,395**	1,567

Investment in subsidiaries shown above represents the cost of the shares of the wholly-owned subsidiary undertakings plus non-current loans advanced, less provisions made for any impairment in value. All non-current loans to subsidiaries are non-interest bearing.

During the year the Company acquired an investment in Ciel Bleu 6 Ltd, parent company of Newserge Limited, Newserge operates a significant portion of Sky's installation and service capability; an investment in Virtuous Systems Limited ("VSL"), VSL is a third party company that has developed a sophisticated software tool for advertising services; and an investment in Dolphin TV Limited and Multicultural & Ethnic Media Sales Limited., both companies operate advertising sales houses. The aggregate consideration paid for these investments was £33 million.

Notes to the financial statements

12. Investment in subsidiaries (continued)

Details of the principal investments of the Company are as follows:

Name	Country of incorporation / registration	Description and proportion of shares held (%)	Principal activity
Direct holdings			
Sky Ventures Limited	England and Wales	912 Ordinary Shares of £1 each (100%)	Holding company for joint ventures
Sky New Media Ventures Limited	England and Wales	12,499 Ordinary Shares of £1 each (99.99%)	Holding company for new media investments
Sky Retail Stores Limited	England and Wales	5,001,005 Ordinary Shares of £0.01 (100%)	Operates sales kiosks within shopping centres
BSkyB Telecommunications Services Limited	England and Wales	5,821,764 Ordinary Shares of £1 each (100%)	Provision of networking services
Sky In-Home Service Limited	England and Wales	1,576,000 Ordinary Shares of £1 each (100%)	The supply, installation and maintenance of satellite television receiving equipment
Sky Subscribers Services Limited	England and Wales	3 Ordinary Shares of £1 each (100%)	The provision of support services to BSkyB Group and third party broadcasters.
Sky Home Communications Limited	England and Wales	9,528,124 Ordinary Shares of £1 each (100%)	Provision of residential broadband and telephone services
Tour Racing Limited	England and Wales	60 Ordinary Shares of £1 each (60%)	The provision of support services to the Sky Cycling team
Bonne Terre Limited	Alderney	2,504 Ordinary Shares of £1 each (100%)	Operation of internet gaming
Hestview Limited	England and Wales	108 Ordinary Shares of £1 each (100%)	Licensed bookmakers
BSkyB LLU Assets Limited	England and Wales	90 Ordinary Shares of £0.04 each (100%)	Property leasing company
The Cloud Networks Limited	England and Wales	30,583,988 Shares of £0.00025 each (100%)	The provision of telecommunications
Ciel Bleu 6 Limited	England and Wales	51,850 Ordinary Shares of £0.01 each (100%)	Holding company
Dolphin TV Limited	England and Wales	200,000 Ordinary Shares of £0.001 each (100%)	The provision of media services
MEMS TV Limited	England and Wales	10 Ordinary Shares of £1 each (100%)	Holding company
Multicultural & Ethnic Media Sales Limited	England and Wales	144 Ordinary Shares of £1 each (100%)	The provision of media services
Virtuous Systems Limited	England and Wales	125 Ordinary Shares of £1 each (100%)	The provision of software tool for advertising
Parthenon Media Group Limited	England and Wales	2 Ordinary Shares of £1 each (100%)	Holding company
Sky International Operations Limited	England and Wales	202 Ordinary Shares of £1 each	Sales agent in respect of Sky News International sales

Notes to the financial statements

13. Deferred tax

Recognised deferred tax asset/(liability)

	Accelerated tax depreciation	Short-term temporary differences	Share-based payments temporary differences	Financial instrument temporary differences	Total
	£m	£m	£m	£m	£m
At 1 July 2012	(26)	4	23	(5)	(4)
Credit to income	5	-	16	-	21
Credit to equity	-	-	6	5	11
At 30 June 2013	(21)	4	45	-	28
Credit (charge) to income	4	(2)	(19)	-	(17)
Credit to equity	-	-	-	2	2
At 30 June 2014	**(17)**	**2**	**26**	**2**	**13**

There are no unrecognised deferred tax liabilities (2013: nil). There is an unrecognised deferred tax asset of £2 million (2013: £1 million) in respect of tax losses. There is currently insufficient evidence to support the recognition of a deferred tax asset relating to these losses.

Deferred tax assets have been recognised at 30 June 2014 (and 30 June 2013) on the basis that management deems it probable that there will be suitable taxable profits against which these assets can be utilised. 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 period of reversal is 20% as at June 2014 (2013: 23%). This rate is due to come into effect on 1 April 2015.

14. Inventories

	2014	2013
	£m	£m
Television programme rights	**488**	470
Other inventories	**1**	1
Total inventory	**489**	471

15. Trade and other receivables

	Note	2014 £m	2013 £m
Gross trade receivables		**190**	143
Less: provision for impairment of receivables		**(68)**	(85)
Net trade receivables		**122**	58
Amounts receivable from other Group companies[a]		**4,558**	4,307
Amounts receivable from subsidiaries[b]		**483**	504
Amounts receivable from parent company[c]		**36**	26
Amounts receivable from joint ventures and associates		**6**	7
Amounts receivable from other related parties	27	**5**	6
Prepayments		**259**	291
Accrued income		**156**	147
Other receivables		**5**	11
Current trade and other receivables		**5,630**	5,357
Non-current amounts receivable from subsidiaries		**35**	33
Non-current prepayments		**4**	15
Total non-current trade and other receivables		**39**	48
Total trade and other receivables		**5,669**	5,405

The ageing of the Company's net trade receivables past due not subject to impairment is as follows:

	2014 £m	2013 £m
Up to thirty days past due date	**104**	41
Thirty to sixty days past due date	**4**	4
Sixty to ninety days past due date	**1**	2
Ninety to 120 days past due date	**-**	-
More than 120 days past due date	**-**	3
	109	50

Provisions for doubtful debts

	2014 £m	2013 £m
Balance at beginning of year	**85**	88
Amounts utilised	**(49)**	(38)
Income statement charge	**32**	35
Balance at end of year	**68**	85

15. Trade and other receivables (continued)

a) Amounts receivable from other Group companies

Amounts due from other Group companies as at 30 June 2014 are £4,558 million (2013: £4,307 million). £1,863 million (2013: £1,879 million) represent trade receivables, these are non-interest bearing and are repayable on demand. The balance of £2,695 million (2013: £2,428 million) are loans as detailed below:

On 15 September 2008, the Company entered into an agreement with Sky Holdings Limited ("SHL"). The loan is interest bearing at a rate of twelve month LIBOR plus 0.75% and is repayable on demand. On the 27 July 2011 the loan was converted into a revolving credit facility ("RCF") of up to £24 million. This facility is repayable on demand and is non-interest bearing. As at 30 June 2014 the balance of the loan was £22 million (2013: £22 million).

On 26 June 2009, the Company entered into a £380 million revolving credit facility ("RCF") agreement with BSkyB Finance Limited (BSkyB Finance Ltd). This facility is repayable on demand and is non-interest bearing. At 30 June 2014 the balance on this account was £371 million (2013: £371 million).

On 26 June 2009, the Company was assigned a £343 million receivable from BSkyB Finance Ltd by BSkyB as settlement of its debt. As at 30 June 2014, the balance of this loan was £343 million (2013: £343 million). This loan is non-interest bearing and repayable on demand.

On 20 July 2011, the Company entered into a £900 million RCF agreement with BSkyB Finance Ltd. This facility is repayable on demand and is non-interest bearing. At 30 June the balance on this account was £1,439 million (2013: £1,173 million).

The Company has entered into other RCFs and loans with BSkyB Finance Ltd amounting to £520 million (2013: £519 million), all are non-interest bearing and repayable on demand.

Within the Company there is a concentration of risk within accounts receivable from other Group companies. No allowance has been recorded against amounts receivable from other Group companies (2013: no allowance) as the Company has assessed that all Group companies with which it holds debt have sufficient funds to repay the debt.

b) Amounts receivable from subsidiaries

Amounts due from subsidiaries as at 30 June 2014 are £483 million (2013: £504 million). £467 million (2013: £481 million) represent trade receivables, these balances are non-interest bearing and are repayable on demand.

The balance of £16 million (2013: £23 million) is made up of a £4 million non-interest bearing loan to Sky Ventures Limited that is repayable on demand (2013: £4 million). In addition on 17 October 2011 the Company entered into a £60 million RCF agreement with Sky Ventures Limited. This facility is repayable on demand and is non-interest bearing. At 30 June 2014, the balance on this account was £12 million (2013: £12 million).

On 31 December 2012, the Company entered into a €8 million RCF with Acetrax AG. The loan is interest bearing at a rate of EURIBOR – 0.2% and is repayable on demand. During the year, Acetrax AG was put into liquidation and, therefore, the Company has fully provided for it.

15. Trade and other receivables (continued)

c) Amounts receivable from parent company

Amounts due from the parent company as at 30 June 2014 are £36 million (2013: £26 million) which represents trade receivables; these are non-interest bearing and are repayable on demand.

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

16. Trade and other payables

	Note	**2014**	2013
		£m	£m
Trade payables [i]		**641**	607
Amounts payable to the parent Company[a]		**1,748**	1,705
Amounts payable to other Group companies[c]		**4,170**	3,884
Amounts payable to subsidiaries[b]		**962**	816
Amounts owed to joint ventures and associates		**11**	9
Amounts owed to other related parties	27	**101**	96
VAT		**232**	201
Accruals		**458**	403
Deferred income		**305**	287
Deferred consideration		**22**	-
Other payables		**45**	55
		8,695	8,063

(i) Included within trade payables are £213 million (2013: £256 million) of US dollar-denominated programme creditors.

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 on-going costs.

a) Amounts payable to the parent company

In July 1999, BSkyB issued US $650 million of guaranteed notes and BSkyB Group plc loaned the proceeds to the Company. The Company is liable to the 8.200% external interest payments on the notes. The Company also pays the same rate of interest to BSkyB Group plc. As at 30 June 2014 the total of the loan was £38 million (2013: £36 million).

On 4 June 2007, the Company entered into a £694 million loan agreement with a fellow subsidiary undertaking, BSkyB Finance (Luxembourg) s.a.r.l. The loan was repayable on demand and incurred interest at a rate of six month LIBOR plus 0.75%, compounded at 30 June and 31 December each year. On 5 March 2009, BSkyB Finance (Luxembourg) s.a.r.l was placed into liquidation at which point the loan was transferred to the sole shareholder, BSkyB Group plc. The terms and conditions remain unchanged. As at 30 June 2014 the total of the loan plus interest was £101 million (2013: £99 million).

16. Trade and other payables (continued)

a) Amounts payable to the parent company (continued)

On 4 April 2008, the Company entered into a loan agreement with BSkyB Finance Ltd. At the same time BSkyB Finance Ltd entered into an agreement with Sky Broadband SA. These loans were in relation to the settlement of recharges during the month. The loan is repayable on demand and interest is payable at one month LIBOR plus 0.75%. On 13 January 2009 BSkyB Finance Ltd assigned £249,724,000 of this loan along with a further £1,951,000 to BSkyB Group plc. Under the terms of the new loan interest is payable at six month LIBOR plus 1.00%. It is repayable on demand. The balance remaining on the original loan plus interest with BSkyB Finance Ltd at 30 June 2009 was £425 million and the balance on the loan amount transferred to BSkyB Group plc plus interest at 30 June 2014 was £282 million (2013: £278 million).

On 29 June 2008, the Company also entered into two further loan agreements payable to BSkyB Group plc; £143 million and £109 million, both bearing interest at a rate of 1 month LIBOR plus 0.75%. These loans are repayable on demand. As at 30 June 2014 the total of the loan plus interest was £280 million (2013: £277 million).

The Company also has trade payable balances with BSkyB Group plc of £1,047 million (2013: £1,015 million), these balances are non-interest bearing and are repayable on demand.

b) Amounts payable to subsidiaries

All amounts are trade payables; these balances are non-interest bearing and are repayable on demand.

The transfer of some trade and assets of the Sky News business from the Company to BSkyB SNI Limited during the year as part of a Group reorganisation resulted in the transfer of trade payables of £2 million.

c) Amounts payable to other Group companies

There are amounts due to other Group companies totalling £4,170 million (2013: £3,884 million) of which £445 million (2013: £250 million) are trade payables; these balances are non-interest bearing and are repayable on demand. There are £3,725 million (2013: £3,634 million) of intercompany RCFs and loans, of which £417 million (2013: £424 million) is non-interest bearing. All loans are repayable on demand.

On 8 February 2010, the Company entered into a loan agreement with BSkyB Finance Ltd for €6.5 million (£5.7 million) bearing interest at a fixed rate of 4%. As at 30 June 2014 the balance of the loan plus interest was £7 million (2013: £7 million).

On 16 October 2009, the Company entered into a loan agreement with BSkyB Finance UK plc for £611 million. Under the terms of the loan agreement interest is payable at one month LIBOR plus 2.00%. As at 30 June 2014 the balance of the loan plus interest was £689 million (2013: £672 million).

In November 2008, BSkyB issued a further US$600 million of guaranteed notes, BSkyB loaned the bond proceeds to BSkyB Finance Ltd which then loaned them on to the Company. Under the terms of this loan agreement the Company is liable to the 9.500% external interest payments on these bonds. The loan is repayable on demand. As at 30 June 2014, the total of the loan plus interest was £582 million (2013: £547 million).

On 15 September 2008, the Company entered into a £150 million RCF agreement with BSkyB Finance Ltd and another with Sky Holdings Limited ("SHL"). At the same time the Company entered into reciprocal facilities on the same terms with BSkyB Finance UK plc. The facilities are repayable on demand and bear interest at a rate of twelve

16. Trade and other payables (continued)

c) Amounts payable to other Group companies (continued)

month LIBOR plus 1.00%. As at 30 June 2014 the cumulative balance of these loans plus interest was £95 million (2013: £95 million).

On 11 April 2008, the Company entered into a £500 million RCF agreement with BSkyB Finance Ltd. The facilities are repayable on demand and bear interest at a rate of one month LIBOR plus 0.75%. As at 30 June 2014 the balance of the loans plus interest was £1,402 million (2013: £1,384 million).

On 3 June 2013, the Company entered into a £503 million RCF agreement with BSkyB Finance Limited. The facilities are repayable on demand and bear interest at a rate of 3.226%. As at 30 June 2014 the balance of this loan plus interest was £530 million (2013: £512 million).

17. Provisions

	At 1 July 2012 £m	Provided during the year £m	Utilised during the year £m	At 30 June 2013 £m	**Provided during the year £m**	**Utilised during the year £m**	**At 30 June 2014 £m**
Current liabilities							
Restructuring provision(i)	4	9	(3)	10	**18**	**(9)**	**19**
Property provisions (ii)	6	4	(5)	5	**-**	**(2)**	**3**
	10	13	(8)	15	**18**	**(11)**	**22**
Non-current liabilities							
Property provisions	5	-	(2)	3	**-**	**(3)**	**-**
Other	-	3	-	3	**4**	**-**	**7**
	5	3	(2)	6	**4**	**(3)**	**7**

(i) During the year ended 30 June 2014, the Company provided £18 million for the expected costs of a restructuring exercise undertaken.

(ii) The Company has provided amounts for onerous contracts for property leases, maintenance and legal disputes. The timing of the cash flows for onerous property leases and maintenance are dependent on the terms of the remaining leases. The timing of the cash flows for legal disputes cannot be reasonably determined.

18. Non-current trade and other payables

	2014 £m	2013 £m
Non-current trade and other payables		
Other payables	**37**	37
Deferred consideration	**2**	20
Amounts owed to other related parties	**10**	-
	49	57

Deferred consideration relates to amounts payable for acquisitions of subsidiaries. Please refer to Note 12.

19. Borrowings

	2014 £m	2013 £m
Current borrowings		
Obligations under finance leases	**3**	3
Non-current borrowings		
Obligations under finance leases	**3**	6
Other non-current borrowings	**1**	-

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

	2014 £m	2013 £m
Within one year	**3**	3
Between one and two years	**3**	3
Between two and three years	**-**	3
Between three and four years	**-**	-
Between four and five years	**-**	-
After 5 years	**-**	-
	6	9
Future finance charges on finance lease liabilities	**-**	-
Present value of finance lease liabilities	**6**	9

The obligations under finance leases are in relation to datacentre equipment. During the year the repayments of £3 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.

20. Derivatives and other financial instruments

	2014				2013			
	Asset		**Liabilities**		Asset		Liabilities	
	Fair value £m	**Notional £m**	**Fair value £m**	**Notional £m**	Fair value £m	Notional £m	Fair value £m	Notional £m
Cash flow hedges:								
Forward exchange contracts	**33**	**761**	**(44)**	**980**	28	801	(25)	841
Derivatives not in a formal hedge relationship:								
Forward exchange contracts	**34**	**704**	**(37)**	**753**	12	591	(12)	526
Total	**67**	**1,465**	**(81)**	**1,733**	40	1,392	(37)	1,367

The maturity of the derivative financial instruments is as follows:

	2014		2013	
	Asset £m	**Liability £m**	Asset £m	Liability £m
In one year or less	**30**	**(39)**	16	(17)
Between one and two years	**21**	**(25)**	15	(11)
Between two and five years	**16**	**(17)**	9	(9)
Total	**67**	**(81)**	40	(37)

The Company's portfolio of rate derivatives is diversified by maturity, counterparty and type. Natural offsets between transactions within the portfolio and the designation of certain derivatives as hedges significantly reduce the risk of income statement volatility.

At 30 June 2014, the carrying value of financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss was nil (2013: nil).

20. Derivatives and other financial instruments (continued)

Counterparty exposure from all derivatives is managed within credit limits that ensure that there is no significant risk to any one counterparty. In addition to this deals are only executed with counterparties that have a long-term rating of "A-" or better.

The Group's treasury function is responsible for raising finance for the Group's operations, together with associated liquidity management, and the management of foreign exchange, interest rate and credit risks. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed by both the Audit Committee and the Board, which receive regular updates of treasury activity. Derivative instruments are transacted for risk management purposes only. It is the Group's policy that all hedging is to cover known risks and that no speculative trading in financial instruments 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.

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 from 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 forward exchange contracts to hedge transactional and translational currency exposures.

Hedge accounting classification and impact

The Company designates its forward foreign exchange contracts 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 less than £1 million were removed from the hedging reserve and credited to operating expense in the income statement (2013: gains of £3 million). Gains of £2 million were removed from the hedging reserve and credited against revenue in the income statement (2013: gains of £8 million).

Hedge effectiveness testing is performed quarterly using the dollar-offset approach. The actual movement in the hedging items is compared with the movement in the valuation of the hypothetically perfect hedge of the underlying risk at inception, and any ineffectiveness is recognised directly in the Income statement. Less than £1 million of ineffectiveness was recognised in the Income Statement during the current year (2013: No ineffectiveness).

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 2014, there were no instances in which the hedge relationship was not highly effective (2013: no instances).

Notes to the financial statements

20. Derivatives and other financial instruments (continued)

(a) Carrying value and fair value

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

	Held to maturity investments	Available-for-sale investments	Derivatives financial instruments	Loans and receivables	Other liabilities	Total carrying value	Total fair values
	£m	£m	£m	£m	£m	£m	£m
At 30 June 2014							
Derivative financial instruments	-	-	**(14)**	-	-	**(14)**	**(14)**
Trade and other payables	-	-	-	-	**(8,218)**	**(8,218)**	**(8,218)**
Provisions	-	-	-	-	**(10)**	**(10)**	**(10)**
Available-for-sale investments	-	**8**	-	-	-	**8**	**8**
Trade and other receivables	-	-	-	**5,406**	-	**5,406**	**5,406**
Short-term deposits	**295**	-	-	-	-	**295**	**295**
Cash and cash equivalents	**300**	-	-	**728**	-	**1028**	**1028**
At 30 June 2013							
Derivative financial instruments	-	-	3	-	-	3	3
Trade and other payables	-	-	-	-	(7,524)	(7,524)	(7,524)
Provisions	-	-	-	-	(6)	(6)	(6)
Trade and other receivables	-	4	-	-	-	4	4
Trade and other receivables	-	-	-	5,092	-	5,092	5,092
Short-term deposits	595	-	-	-	-	595	595
Cash and cash equivalents	65	-	-	670	-	735	735

20. Derivatives and other financial instruments (continued)

(a) Carrying value and fair value (continued)

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 are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts;

• 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 2014 and 30 June 2013. 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 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.

Notes to the financial statements

20. Derivatives and other financial instruments (continued)

(b) Fair value hierarchy

The following table categorises the Company's financial instruments which are held at fair value into one of three 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 2014				
Financial assets				
Available-for-sale financial instruments	8	4	-	4
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	67	-	67	-
Total	**75**	**4**	**67**	**4**
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	(81)	-	(81)	-
Total	**(81)**	**-**	**(81)**	**-**
At 30 June 2013				
Financial assets				
Available-for-sale financial instruments	4	-	-	4
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	40	-	40	-
Total	**44**	**-**	**40**	**4**
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	(37)	-	(37)	-
Total	**(37)**	**-**	**(37)**	**-**

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. Derivative financial instrument fair values are present values determined from future cash flows discounted at rates derived from market source data.

Level 3

Fair values measured using inputs for the asset or liability that are not based on observable market data.

The Company's available-for-sale investment in Johnston Press is carried at fair value and constitutes a Level 1 financial instrument in the fair value hierarchy. The Company's other available-for-sale financial assets are held at fair value and are categorised as Level 3 in the fair value hierarchy.

21. Financial risk management objectives and policies

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

The Group's principal market risks are exposures to changes in interest rates and foreign exchange rates, which arise both from the Group's sources of finance and its operations. Following evaluation of those market risks, the Group selectively enters into derivative financial instruments to manage these exposures. The principal instruments currently used are interest rate swaps to hedge interest rate risks, and cross currency swaps and forward foreign exchange contracts to hedge transactional and translational currency exposures.

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.

21. Financial risk management objectives and policies (continued)

Liquidity risk

The Company's financial liabilities are shown in note 16, 17 and 18.

The following table analyses the Company's non-derivative financial liabilities into relevant maturity groupings, based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows. These amounts may not reconcile to the amounts disclosed on the balance sheet for 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 2014				
Non-derivative financial liabilities				
Trade and other payables	**8,116**	**99**	**3**	**-**
Provisions	**3**	**7**	**-**	**-**
Gross settled derivatives				
Outflow	**1,477**	**768**	**1,040**	**9**
Inflow	**(1,468)**	**(765)**	**(1,051)**	**(8)**
At 30 June 2013				
Non-derivative financial liabilities				
Trade and other payables	7,490	33	1	-
Provisions	3	3	-	-
Gross settled derivatives				
Outflow	1,202	821	704	-
Inflow	(1,200)	(824)	(709)	-

Credit risk

The Company is exposed to default risk amounting to invested cash and cash equivalents and short-term deposits, and the positive fair value of derivative financial assets held. However, this risk is deemed to be low. Counterparty risk forms a central part of the Company's treasury policy, which is monitored and reported on regularly. The Company 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 7% (2013: less than 10%) of the total asset value of instruments at the end of the period. Treasury policies ensure that all transactions are only effected with strong relationship banks and all counterparties at the end of the period, each carried a credit rating of "Baa1" or equivalent from Moody's and Standard and Poor's.

Credit risk in the Company's residential customer base is mitigated by billing and collecting in advance for digital television subscriptions for over 99% of its residential customer base.

The Company's maximum exposure to credit risk on trade receivables is the carrying amounts as disclosed in note 15.

21. Financial risk management objectives and policies (continued)

Interest rate risk

The Company has financial exposure to UK interest rates arising from the investment of surplus cash and various loan balances with other companies within the BSkyB Group. The Group's Treasury function monitors the Company's exposure to fluctuations in interest rates.

Interest rate sensitivity

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. 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 2014 would increase by £14 million (2013: profit for the year would increase by £14 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 Company's actual exposure to market rates changes as the Company'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 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.

Foreign exchange risk

The Company's revenues are substantially denominated in pounds sterling, although a significant proportion of operating costs are denominated in US dollars. These costs relate mainly to the Company's programming contracts with US suppliers.

During the year, the Company managed its currency exposure on US dollar denominated programming contracts by the purchase of forward exchange contracts and similar financial instruments for up to five years ahead. All US dollar-denominated forward exchange contracts entered into by the Company are in respect of highly probable cash flows and those instruments maturing over the year following 30 June 2014 represent approximately 95% (2013: approximately 90%) of US dollar denominated costs falling due in that year. At 30 June 2014, the Company had outstanding commitments to purchase, in aggregate, US$1,529 million (2013: US$1,199 million) at an average rate of US$1.61 to £1.00 (2013: US$1.57 to £1.00).

The Company has designated a number of forward exchange contracts as cash flow hedges of up to approximately 80% (2013: approximately 80%) of the Company's exposure to US dollar payments on its programming contracts with US movie licensors for a period of five years, thereafter nil (2013: five years, thereafter nil). The Company has also designated a number of foreign exchange contracts on cash flow hedges of approximately 80% of certain US dollar-denominated sport programming costs (2013: approximately 80%).

21. Financial risk management objectives and policies (continued)

Foreign exchange risk (continued)

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 transferred to the income statement as the forecast transactions affect the income statement (i.e. when US dollar-denominated trade payables are retranslated and related programming inventory is amortised through the income statement).

For forward exchange contracts, hedge accounting is applied to changes in the full fair value. Any hedge ineffectiveness on the forward exchange contracts is recognised directly in the income statement. The ongoing effectiveness testing is performed using the dollar-offset approach. 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. Certain forward exchange contracts have not been designated as hedges and movements in their values continue to be recorded directly in the income statement.

During the year, the Company managed its exposure to Euros for up to four years ahead (2013: 4 years) using forward exchange contracts. Approximately 95% of net Euro-denominated revenues falling due within 12 months (2013: approximately 95%) are hedged, and approximately 80% of net Euro-denominated revenues falling due within four years (2013: 80%) are hedged.

At 30 June 2014, the Company had outstanding commitments to sell, in aggregate, €1,078 million (2013: €1,039 million) at an average rate of €1.18 (2013: €1.19) and further commitments to purchase, in aggregate, €111 million (2013: €119 million) at an average rate of €1.18 (2013: €1.16).

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 into the income statement in the same periods that the forecast transaction affects the income statement.

It is the Company's policy that anticipated foreign currency exposures are substantially hedged in advance of the fiscal year in which the exposure occurs.

Foreign exchange sensitivity

The following analysis details the Company's sensitivity to movements in pounds sterling and 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 Dollar would have a beneficial impact on profit of £1 million (2013: beneficial impact of £2 million). The same move would have an adverse impact on other equity of £143 million (2013: adverse impact of £113 million).
- A 25% weakening in pounds sterling against the Dollar would have an adverse impact on profit of £1 million (2013: adverse impact of £4 million). The same move would have a beneficial impact on other equity of £239 million (2013: beneficial impact of £188 million).
- A 25% strengthening in pounds sterling against the Euro would have a beneficial impact on profit of £1 million (2013: adverse impact of £1 million). The same move would have a beneficial impact on other equity of £155 million (2013: beneficial impact of £157 million).

21. Financial risk management objectives and policies (continued)

Foreign exchange sensitivity (continued)

- A 25% weakening in pounds sterling against the Euro would have an adverse impact on profit of £2 million (2013: beneficial impact of £1 million). The same move would have an adverse impact on other equity of £259 million (2013: adverse impact of £262 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 Company's actual exposure to market rates is constantly changing as the Company's portfolio of 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.

Additional information

At 30 June 2014, the carrying value of financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss, was nil (2013: nil).

Cash and cash equivalents include £300 million (2013: £65 million) of held to maturity investments, which have maturity dates of less than three months from inception.

22. Share capital

	2014 **£m**	2013 £m
Allotted, called-up and fully paid		
10,002,002 (2013: 10,002,002) ordinary shares of £1 each	**10**	10

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

Share option and contingent share award schemes

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

Scheme	**2014 Number of ordinary shares**	2013 Number of ordinary shares
Executive Share Option Scheme options(i)	**141,323**	894,546
Sharesave Scheme options(ii)	**5,091,833**	4,453,452
Management LTIP awards(iii)	**15,160,880**	23,075,751
LTIP awards(iv)	**5,575,000**	8,844,132
Management Co-Investment LTIP awards(v)	**1,981,967**	1,907,134
Co-Investment LTIP awards(vi)	**2,235,172**	2,068,175
	30,186,175	41,243,190

22. Share capital (continued)

(i) Executive Share Option Scheme options

All Executive Share Option Scheme options outstanding at 30 June 2014 and 30 June 2013 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 share price of BSkyB Group plc 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 2014 and 30 June 2013 have no performance criteria attached, other than the requirement that the employee remains in employment with the Company. Options granted under the Sharesave Scheme must be exercised within six months of the relevant award vesting date. The Sharesave Scheme is open to all employees. Options are normally exercisable after either three 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 end of year results.

(iii) Management LTIP awards

All Management LTIP awards outstanding at 30 June 2014 and 30 June 2013 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 2014 and 30 June 2013 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 which will vest in 2011), 30% of the award vests dependent on TSR performance of BSkyB Group plc over a three year performance period, relative to the constituents of the FTSE 100 at the time of grant, and the remaining 70% vests dependent on performance against operational targets. 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.

Notes to the financial statements

22. Share capital (continued)

(v) Management Co-Investment LTIP awards

All Management Co-Investment LTIP awards outstanding at 30 June 2014 and 30 June 2013 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.

BSkyB Group plc 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 2014 and 30 June 2013 vest only if performance conditions are met. Awards granted under the Co-Investment LTIP must be exercised within five years of the relevant awards 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 BSkyB Group plc 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.

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

	2014 Number of shares under option	**2014 Weighted average exercise price**	2013 Number of shares under option	2013 Weighted average exercise price
Outstanding at 1 July	**41,243,190**	**£0.70**	31,491,792	£1.17
Granted during the year	**11,682,032**	**£1.17**	15,644,203	£0.49
Exercised during the year	**(21,513,675)**	**£0.38**	(4,113,452)	£3.03
Forfeited during the year	**(1,208,343)**	**£3.02**	(1,745,454)	£1.66
Expired during the year	**(17,029)**	**£4.69**	(33,899)	£5.30
Outstanding at 30 June	**30,186,175**	**£1.02**	41,243,190	£0.70

22. Share capital (continued)

Share option and contingent share award schemes (continued)

The weighted average market price of the BSkyB's shares at the date of exercise for share options exercised during the year was £8.42 (2013: £7.83).

The following table summarises information about share awards outstanding at 30 June 2014:

	Awards Outstanding			
Range of Exercise Prices	**2014 Number**	**2014 Weighted average remaining contractual life**	2013 Number	2013 Weighted average remaining contractual life
£0.00 - £1.00	**24,953,019**	**6.00**	35,895,192	5.87
£3.00 - £4.00	**16,024**	**0.09**	231,856	1.09
£4.00 - £5.00	**196,213**	**1.09**	254,052	1.71
£5.00 - £6.00	**2,214,970**	**1.83**	3,260,796	2.43
£6.00 - £7.00	**2,805,949**	**3.18**	1,599,796	2.61
£7.00 - £8.00	**-**	**-**	1,498	0.66
	30,186,175	**5.40**	41,243,190	5.42

The exercise prices of options outstanding at 30 June 2014 ranged from nil to £6.82 (2013: nil to £7.16).

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 £5.53 (2013: £5.16). 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.

The Monte-Carlo simulation model reflected the historical volatilities of BSkyB Group plc's share price and those of all other companies to which BSkyB Group plc's performance would be compared, over a period equal to the vesting period of the awards.

Weighted average fair value assumptions

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

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

	2014	2013
Share price	**£8.38**	£7.20
Exercise price	**£1.57**	£0.73
Expected volatility	**20.6%**	69.7%
Expected life	**2.5 years**	3.1 years
Expected dividend	**3.3%**	3.5%
Risk-free interest rate	**0.8%**	0.7%

23. Shareholder's equity

	2014 £m	2013 £m
Share capital	**10**	10
Share premium	**-**	1,256
Hedging reserve	**(6)**	-
Available-for-sale reserve	**(1)**	-
Retained earnings	**1,271**	358
	1,274	1,624

For the year ended 30 June 2014 there was a £622 million distribution made to BSkyB (2013: £946 million). The distribution was settled by the assignment of intercompany debt within the BSkyB Group.

During the year, the Company performed a share premium reduction of £1,256 million.

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 tax relating to these derivatives is also initially recognised in the hedging reserve prior to transfer to the income statement.

24. Notes to the Cash Flow Statement

Reconciliation of profit before tax to cash generated from operations	2014 £m	2013 £m
Profit before tax	**368**	1,031
Depreciation and impairment of property, plant and equipment	**100**	93
Impairment of investment in subsidiaries	**202**	49
Amortisation and impairment of intangible assets	**100**	105
Share-based payment expense	**57**	76
Net finance costs	**96**	79
	923	1,433
Decrease (increase) in trade and other receivables	**93**	(257)
Increase in inventories	**(18)**	(91)
Increase in trade and other payables	**622**	560
Increase in provisions	**8**	6
Decrease in derivative financial assets	**5**	3
Cash generated from operations	**1,633**	1,654

During the current year, the trade and assets of Acetrax AG were transferred to the Company. No cash was transferred as part of this transaction and the intercompany payable in consideration of the transfer had not been settled in cash at the end of the reporting period. The transfer is therefore deemed a non cash transaction under IAS 7 and has not been included within the Cash Flow Statement.

25. Operating lease commitments

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

	2014	2013
	£m	£m
Within one year	**26**	24
Between one and two years	**22**	21
Between two and three years	**18**	17
Between three and four years	**19**	19
Between four and five years	**3**	4
After five years	**7**	7
	95	92

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:

	2014	2013
	£m	£m
Within one year	**1**	2
Between one and two years	**-**	2
Between two and three years	**-**	2
Between three and four years	**-**	2
Between four and five years	**-**	1
After five years	**-**	5
	1	14

Sub-lease rentals relate to property leases.

26. Contracted commitments, contingencies and guarantees

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

	Year ending 30 June 2015 £m	**Year ending 30 June 2016 £m**	**Year ending 30 June 2017 £m**	**Year ending 30 June 2018 £m**	**Year ending 30 June 2019 £m**	**After 5 Years £m**	**Total at 30 June 2014 £m**	Total at 30 June 2013 £m
Television programme rights	1,482	1,374	569	410	197	369	**4,401**	4,763
Third party payments(i)	65	58	28	4	-	-	**155**	189
Transponder capacity(i)	78	75	71	64	64	167	**519**	634
Property, plant and equipment	28	-	-	-	-	-	**28**	9
Intangible asset	13	7	5	-	-	-	**25**	13
Other	218	117	97	52	5	7	**496**	509
	1,884	**1,631**	**770**	**530**	**266**	**543**	**5,624**	6,117

(i) 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").

(ii) Transponder capacity commitments are in respect of the SES satellites that the Group uses for digital transmissions to both retail subscribers and cable operators.

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

b) Contingencies and guarantees

The Company, together with Sky Subscribers Services Limited, BSkyB Finance UK plc and Sky In-Home Service Limited has given joint and several guarantees in relation to the £743 million RCF held by its parent undertaking, BSkyB Group plc.

The Company, together with Sky Subscribers Services Limited, BSkyB Finance UK plc, and Sky In-Home Service 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, US$800 million of 3.125% Guaranteed Notes repayable in November 2022 and issued by its parent undertaking, BSkyB Group plc.

The Company, together with Sky Subscribers Services Limited, BSkyB Group plc, and Sky In-Home Service 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.

27. Transactions with related parties

a) Major shareholders of BSkyB Group plc

The Company conducts business transactions with companies that form part of the Twenty-First Century Fox, Inc group, a major shareholder of BSkyB Group plc, the ultimate parent undertaking of the Company:

	2014 £m	2013 £m
Supply of services by the Company	**78**	84
Purchases of goods / services by the Company	**(126)**	(155)
Amounts owed to the Company	**5**	6
Amounts owed by the Company	**(112)**	(96)

Services supplied to Twenty-First Century Fox

During the year, the Company supplied programming, airtime, transmission, marketing, consultancy services and set-top boxes to Twenty-First Century Fox, Inc companies.

Purchases of goods and services and certain other relationships with Twenty-First Century Fox

During the year, the Company purchased programming, technical and marketing services from Twenty-First Century Fox, Inc.

b) Key management

The Company has a related party relationship with the Directors of the Company as key management. At 30 June 2014, there were two (2013: two) key managers, both of whom were Directors of the Company. For further details, see note 7(b).

c) Transactions with parent company

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, the Company paid £231 million (2013: paid £926 million) on behalf of BSkyB Group plc. This principally relates to the share buyback of BSkyB Group plc shares, dividend payments to BSkyB Group plc shareholders, brand royalty payments to BSkyB Group plc, and settlement of BSkyB Group plc's interest on external borrowings.

27. Transactions with related parties (continued)

d) Transactions with subsidiaries

The Company conducts business transactions with subsidiaries:

	2014	2013
	£m	£m
Supply of services by the Company	**29**	18
Purchases of goods / services by the Company	**(2,179)**	(2,030)

For details of amounts owed by and owed to subsidiaries, see note 15 and note 16.

Principal services supplied to subsidiaries:
- Supply of access to selected third party channels.

Principal goods/services purchased from subsidiaries:
- Installation services and box costs
- Call handling services
- Telemarketing services
- Broadcast subsidy recovery
- Subscriber handling

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, the Company paid £2,324 million on behalf of its subsidiaries (2013: Company paid £1,051 million).

During the year, the Company acquired the trade, assets and liabilities of Acetrax AG, a fellow Group company, in a common control transaction for consideration equal to book value of £9 million. The total net assets acquired were transferred at a book value of £9 million. No goodwill was recognised as a result of the transaction.

During the year, the Company also transferred some trade, assets and liabilities of the Sky News business to BSkyB SNI Limited, a subsidiary of the Company, in a common control transaction for consideration equal to book value of £12 million. The total net assets were transferred at a book value of £12 million. No gain or loss was recognised as a result of the transaction.

e) Transactions with other Group companies

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 other Group companies as required. Under this policy the Company received £141 million on behalf of other Group companies during the year (2013: paid £1,436 million).

27. Transactions with related parties (continued)

f) Forward contracts on behalf of Sky In Home Service Limited

The Company took out a number of forward contracts with counterparty banks during the year on behalf its subsidiary Sky In-Home Service Limited (SHS Ltd). On the same dates as these forward contracts were entered into, the Company entered into equal and opposite contracts with SHS Ltd in respect of these forward contracts.

The Company was not exposed to any of the net gains or losses on these forward contracts. The face value of the forward contracts that had not matured as at 30 June 2014 was £487 million (2013: £477 million).

During the year, US$410 million (2013: US $302 million) was paid to SHS Ltd upon maturity of forward exchange contracts and £264 million (2013: £192 million) was received from SHS Ltd upon maturity of forward exchange contracts.

28. Ultimate parent undertaking

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

The consolidated financial statements 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.

29. Post balance sheet events

Two indirect subsidiaries of the Company announced on 25 July 2014 that they have conditionally entered into Acquisition Agreements with Twenty-First Century Fox, Inc. (and its relevant subsidiaries) to acquire its 100% stake in Sky Italia Srl and its 57.4% stake in Sky Deutschland A.G. One indirect subsidiary further announced its intention to make the Offer to the minority shareholders of Sky Deutschland A.G. The Transactions are conditional on, amongst other things, their approval by the Group's independent shareholders and regulatory clearances.

The total consideration for the acquisition of Sky Italia is £2.45 billion with approximately £2.07 billion to be paid in cash and the balance to be satisfied through the transfer of the Group's 21% stake in National Geographic Channel to 21CF. The acquisition of 21CF's shareholding in Sky Deutschland A.G is for a consideration of £2.9 billion in cash, valuing Sky Deutschland at €6.75 a share. Subject to the number of Sky Deutschland A.G minority shareholders that accept the Offer, the total consideration for the transaction will range from £2.9 billion to £5 billion.

The total consideration payable for the Transactions will be funded in part by the proceeds of a placing of 156,132,213 new Ordinary Shares in the Group, representing approximately 9.99% of the existing issued share capital of the BSkyB Group plc, to both existing and new institutional investors, which was also announced on 25 July 2014. 21CF, which has a 39.14% shareholding in the BSkyB Group plc, has undertaken to subscribe for 61,106,496 of the shares being placed so as to maintain its existing percentage shareholding in the BSkyB Group plc following completion of the placing. The remaining consideration will come from a combination of new debt facilities (as described below) and cash resources.

29. Post balance sheet events (continued)

On 25 July 2014, BSkyB entered into a facilities agreement (the "Facilities Agreement") documenting a committed bridge loan facility €4.00 billion ("Term Loan A"), a term loan facility of £450 million and €2.5 billion ("Term Loan B") and a revolving loan facility of £1 billion (the "RCF"). The Facilities Agreement is unsecured but is guaranteed by various Group's subsidiaries.

In September 2014, British Sky Broadcasting Group plc issued circa £3.25 billion (equivalent) of Euro and US dollar denominated bonds to which the Company acts as a guarantor.

Proceeds from the bonds are available to finance the acquisition of Sky Italia Sky Deutschland, which was announced on 25 July 2014.