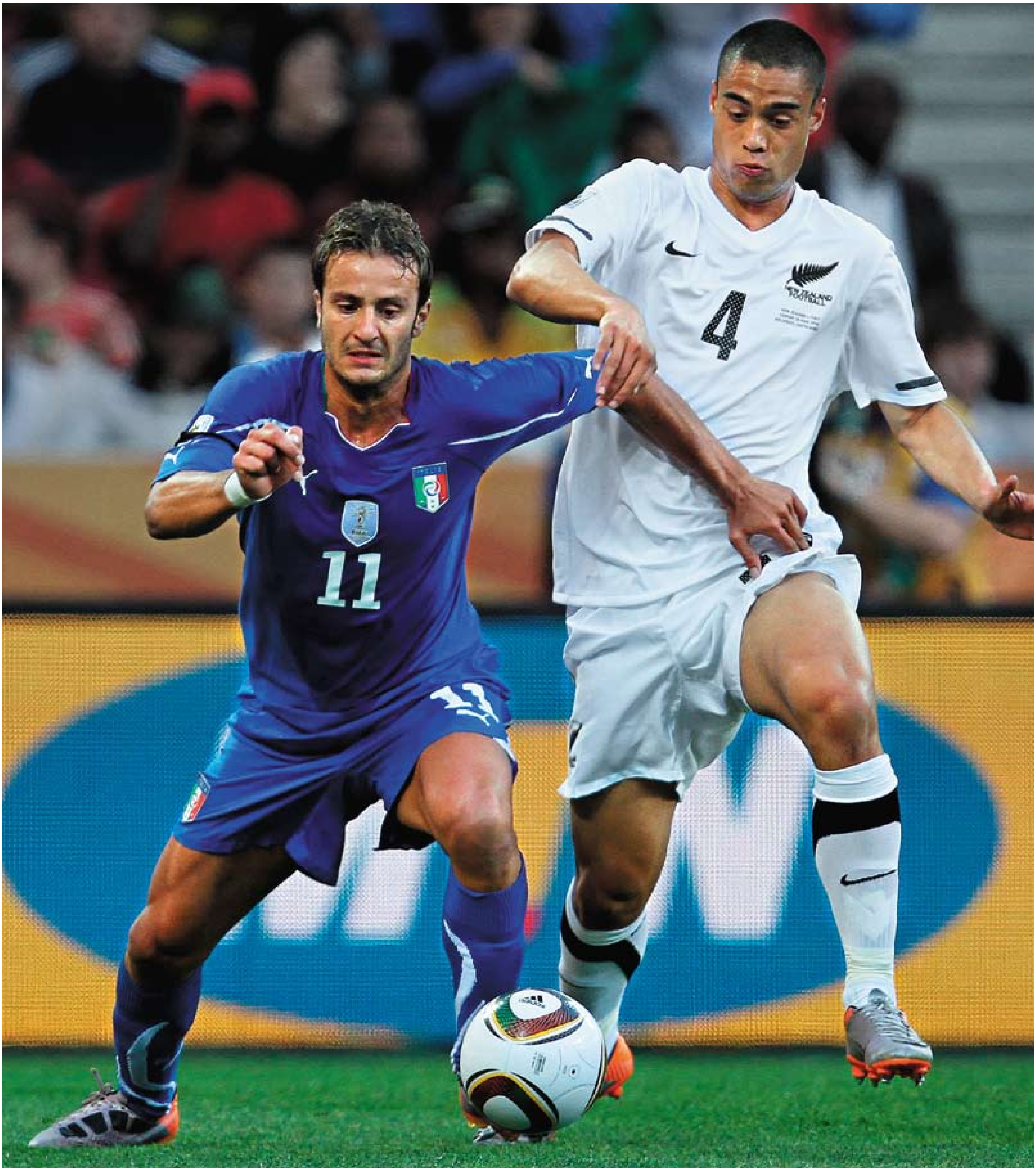
HAPPY MOMENTS

CELEBRATING
20 YEARS
OF SKY

SKY NETWORK
TELEVISION
LIMITED

ANNUAL REPORT
2010



NOW PLAYING

For 20 years, SKY has brought you the most exciting content, on technology that's way ahead of its time.

IFC CONTENTS

001 HIGHLIGHTS

003 CHAIRMAN'S LETTER

005 CHIEF EXECUTIVE'S REVIEW

015 BUSINESS OVERVIEW

023 FINANCIAL OVERVIEW

028 BOARD OF DIRECTORS

031 2010 FINANCIALS

041 NOTES TO THE FINANCIAL STATEMENTS

077 AUDITOR'S REPORT

079 OTHER INFORMATION

080 CORPORATE GOVERNANCE STATEMENT

083 INTERESTS' REGISTER

085 COMPANY AND BONDHOLDER INFORMATION

089 WAIVERS AND INFORMATION

091 SHARE MARKET AND OTHER INFORMATION

092 SKY CHANNELS

094 DIRECTORY

2010 HIGHLIGHTS

TOTAL
REVENUE

$742m

EBITDA

$288m

CAPITAL
EXPENDITURE

$139m

NPAT

$103m

TOTAL
SUBSCRIBERS

802,397

ARPU UP 5.6%

$67.61

MY SKY SUBSCRIBERS
(24% OF TOTAL SUBSCRIBERS)

189,975

CHURN DOWN TO

13.9%

1990

2:00PM
18/05/90

One more reason to stay in
At 2pm on 18 May 1990 SKY started airing its first movie, Space Camp. It may or may not be one of your favourites, but the idea of being able to stay home and watch blockbusters was a universal hit with SKY subscribers.

Space Camp
SKY Movies

LOOKING UP

As New Zealand emerged from the recession, SKY continued to perform well in the year to 30 June 2010 achieving good subscriber growth, increased revenues, reduced churn and continuing growth of MY SKY HDi subscriptions.

Revenue increased by $49.8 million to $741.8 million, a gain of 7.2% compared to the previous year. Total subscriber numbers increased by 3.0% to 802,397 during the year, an increase of 23,495 new subscribers.

The gain in revenue and subscriber numbers and the reduction in churn can in part be attributed to the continuing growth of SKY's personal video recorder numbers with 85,984 new MY SKY HDi subscribers added during the year.

Including the standard definition MY SKY decoders that SKY launched in 2007, more than 24% of SKY subscribers are now MY SKY customers.

Operating costs increased by $39.7 million, a 7.6% increase over the previous year. Contributing to the increase were programme rights costs for new channels such as TVNZ Heartland and the Travel Channel as well as the production costs for the Vancouver Winter Olympics in February of this year.

Earnings before interest, tax and depreciation increased by 10.2% to $287.5 million and net profit after tax was 16.9% higher than the previous year, at $103.0 million, mainly reflecting the increase in revenue as well as an $8.4 million reduction in finance expenses.

Gross annual "churn", the number of subscribers who disconnected their service during the year, decreased from 14.0% in 2009 to 13.9% in 2010 reflecting subscribers' continued satisfaction with SKY programmes and services.

With four dedicated 24 hour Olympic channels broadcasting the Winter Games in Vancouver, live coverage of all 64 FIFA World Cup matches, Super 14, Tri Nations and ITM Cup Rugby, International and National Cricket, Trans Tasman Netball and the Commonwealth Games in October of this year, SKY is the place to be for all New Zealand sport fans.

High definition, increased numbers of MY SKY HDi subscribers, additional channels and new SKY services such as booking and recording programmes through "Remote Record" and "Record Me", have contributed to SKY and free-to-air channel Prime achieving a combined share of all television viewing of 33.7%.

Since 1990 SKY has consistently grown its subscriber base through innovation, by responding to customer demands and broadcasting the best content regardless of the delivery platform and as a result SKY is now in nearly 50% of New Zealand households.

While satellite is currently the most cost effective content delivery method to reach 100% of New Zealand's households, the continuing growth in internet usage and the rollout of faster and more efficient content delivery networks such as the Government's Ultra Fast Broadband will give SKY the opportunity to deliver online content to New Zealand consumers. SKY plans to launch an online media platform delivering content through the internet later in this year.

I would like to extend my thanks to Chief Executive John Fellet, SKY's management team and its employees, and the company's contractors and subscribers for their continued support of the company.

Peter Macourt
Chairman

More than 24% of SKY subscribers are now MY SKY customers

1992

3:00AM
15/08/92

Game on
Winning the rights to broadcast the first All Blacks tour to South Africa in 16 years brought one of sport's fiercest rivalries back to life. Today, the spirit of competition between our two rugby-mad nations is as full-on as ever.

All Blacks v South Africa
SKY Sport

HAPPY WITH PROGRESS

WE CONTINUE TO FIND new ways to entertain New Zealanders.

Dear Shareholders,

If you have been a shareholder of SKY Network Television Limited for more than a year, you will see that in my annual letter to shareholders, I attempt to draft my correspondence as if all of you were living overseas and that the only information you received about SKY was derived from the information contained in this report.

As always, the financial information contained here is quite detailed but still only provides a financial snapshot of the business. In my annual letter I attempt to explain the trends and to give some insight into the areas of business that the financials do not necessarily cover.

SKY has a simple business model. We do not consider ourselves to be either a pay television company or a satellite company, but rather a company that creates and aggregates content for consumers to watch and listen to in their living room, hotel room or even on a boat. Our subscribers may elect to watch the content on their big screens, computers or on a 3 or 4G mobile phone. They may want to watch it live, when we schedule it, or timeshifted to when they want to see it. The content can be in the form of physical tapes, digital impressions, internet download or one of our 26,000 DVD titles from the library of our DVD online rental business, Fatso.

Last year when I reported, New Zealand was in the middle of a recession. Confidence in the economy has not yet fully returned to New Zealand. The best word that I would use to describe our economy is choppy. One month will be good, the next month weak.

As mentioned in my annual letter last year, during an economic recession, television viewing actually increases, in part because more people spend time at home watching television. This is great news for reducing churn (the term we use in the industry for disconnects) but it certainly creates a challenge in adding new subscribers.

In the recession we were still able to go forward. We had good top line growth as revenues increased 7.2% to an all time record of $741.8 million. This was an acceleration of revenue growth compared to last year's of only 5%. However, this revenue growth did not come easily.

For the most part, our success in growing revenue came from our ability to upgrade our existing subscribers to new packages and tiers. During the year a considerable effort was made in successfully converting the 23,172 UHF subscribers to our digital satellite service. This conversion, which incidentally did not add any more new subscribers, did however use up marketing dollars, installation capacity and capital investment in the form of new satellite decoders. The advantage of this conversion is that we will be able to save over $7 million dollars a year, the cost of transmission of the UHF platform from one end of the country to the other. More on platform transition later.

In addition to driving revenues higher from converting UHF subscribers to digital, we also had great success in converting existing digital subscribers to additional options such as MY SKY and Multiroom connections.

We had good top line growth as revenues increased 7.2% to an all time record of $741.8m

1994

7:30PM 27/10/94

Beyond the comfort zone
In 1994, SKY introduced the Discovery Channel to New Zealand, and all of a sudden the world was a much smaller and less mysterious place. Programmes like Man vs Wild even went so far as to make survival seem like fun.

Man vs Wild
Discovery Channel

In the last Annual Report I was pleased that we had reached 103,991 MY SKY subscribers. I am happy to report that the story just keeps on getting better and better. By 30 June 2010 the figure reached 189,975.

The combined advertising revenue for Prime and SKY fell by $4 million. We were not the only ones to see the decline in advertising revenue. The television industry witnessed seven straight quarters where advertising revenues fell on a year on year basis. Hopefully things have started to turn around. Starting with the quarter ending 31 March 2010, revenues are starting to grow again. While advertising revenue makes up less than 10% of our total revenue, any gain or decline in this type of revenue goes direct to the bottom line.

Our share of the total television advertising market is typically about 10%. Generally when the industry first goes into decline, we typically get hit harder than our competitors since advertisers can cut us out and still keep 90% of their spend and maintain volume discounts with the other free-to-air broadcasters. As an example, for the year ended 30 June 2010, the total industry advertising revenue fell by 4% yet over the same period SKY advertising revenue dropped by 5.9% and Prime by 4.6%. However when the market turns positive we benefit more because we do not discount as much. The quarter ended 30 June 2010 is a good example of this. On a year on year basis the industry did well by growing by 7.7% yet SKY grew by 18% and Prime by 20%.

We have continued to monitor our costs closely. In spite of adding channels and additional content to our existing channel line-up, our programming costs have remained at 33% of revenue. This figure has varied only slightly over the last five years.

We have several options when it comes to buying programming. We can buy additional television series, movies and documentaries for Prime. We can buy more movies for SKY Movies or sporting events for SKY Sport. We can obtain new channels for our basic tier or create new tiers if we think there is a market for this. We can buy reruns of series for our general entertainment channels like Vibe and The Box or even build brand new channels.

We take a totally objective view of content, as it is an asset if you acquire it at the right price and a liability if you pay too much for it. Over the last 12 months we have been outbid on some significant programming deals, but I believe that it is better to lose them than to pay too much for them.

Last year our earnings were lower because of the investment we made in order to launch High Definition (HD) and the MY SKY HDi. As I promised then and can now confirm, we are starting to see the wisdom in the investment we made in this area. The increase in the numbers of MY SKY HDi decoders and High Definition subscribers has led to profits increasing by up to 16.9% to $103 million for the year.

MOST FREQUENTLY ASKED QUESTIONS

Last year for the first time, I listed some of the key questions asked by fund managers and analysts together with my answers. Collectively these people manage billions of dollars and spend every waking moment determining how to allocate the funds they manage. I received several letters from them thanking me for including this section so I have decided to do it again.

"The company has just spent over $100 million to transform the studio from a tape based system to a state of the art High Definition (HD) digital one. In addition, millions more was spent to acquire and deliver HD content to MY SKY HDi decoders. The exercise depressed earnings and diverted cash that could have been used to increase dividends. How do I know that SKY will not have to do this again?"

I can almost assure you that some time in the future we will have to do it again. In this industry, waves of innovation continually hit the side of the ship. The way management navigates these waves is how they can create the greatest value to shareholders.

Advertising revenues are starting to grow again

Profits are up 16.9% to $103m for the year

1999

4:00PM
23/07/99

Tripping back in time
30 years after the rainstorm, the concert and of course the film, SKY broadcast the Woodstock 30th Anniversary Concert as its first ever pay-per-view event. Proof perhaps that the Summer of Love never died, it just had a little kip.

Woodstock 30th Anniversary
SKY Box Office

The UHF platform mentioned earlier is a text book case of a job well done. When SKY launched more than 20 years ago, the service consisted of three channels delivered over a standard analogue UHF television network. The signals were encrypted, broadcast and then un-encrypted with a decoder at the home. The technology had been tried at a few locations around the world and found wanting and was probably obsolete by the time the first box was installed in April 1990.

However this decision turned out to be an inspired choice. The only viable alternative at the time would have been to install coaxial cable, which would have been both costly and extremely risky as the business model would have required the conversion of Telecom's telephone customers to SKY's coaxial cable for their telephone services. Another major issue was that there was no internet at that time.

What is just as important is that even if New Zealanders were to have been given a free nationwide cable network, there was still no content to put on it at that time. New Zealand was one of the first Pacific Rim countries to develop and launch a pay television network. Even by the time I joined the company in July 1991, we still had problems getting international programmers to return our calls because we were seen as being too far away and too small.

Cable networks were referred to back then as *"The Super Information Highway".* Our UHF network was, in effect, a pontoon bridge that allowed us to expand with our limited content, region by region, up and down the country and the UHF network gave SKY a chance to get into the game before anyone else.

By 1997 satellite technology had advanced enough for us to be able to take advantage of the flood of new content on offer. The Board of Directors of SKY could have kept the company as a UHF only broadcaster. Profits would have been better for a few years but we would have ceased to exist by now.

By the time we installed our first digital satellite subscriber we already had over 331,000 UHF subscribers. Once we started receiving shipments of our first satellite receivers/decoders we stopped ordering UHF decoders. The factory that produced them soon converted because we were the last company on the planet to use that technology.

At that time there was a strong debate on whether SKY should write-off the several millions we had invested in UHF decoders and antennas that was carried on the balance sheet. The argument for such a move was based on the fact the boxes had no value to the outside world and were clearly obsolete when compared with the new digital box.

Management felt that UHF still retained a significant value. From 1997 to 2010 it provided a great low cost option allowing New Zealanders to get a taste of SKY for the first time. In addition, SKY started to increase penetration of the second outlet segment of the market. A fully depreciated UHF box was a perfect solution as a second outlet when compared to the cost of a new satellite receiver/decoder.

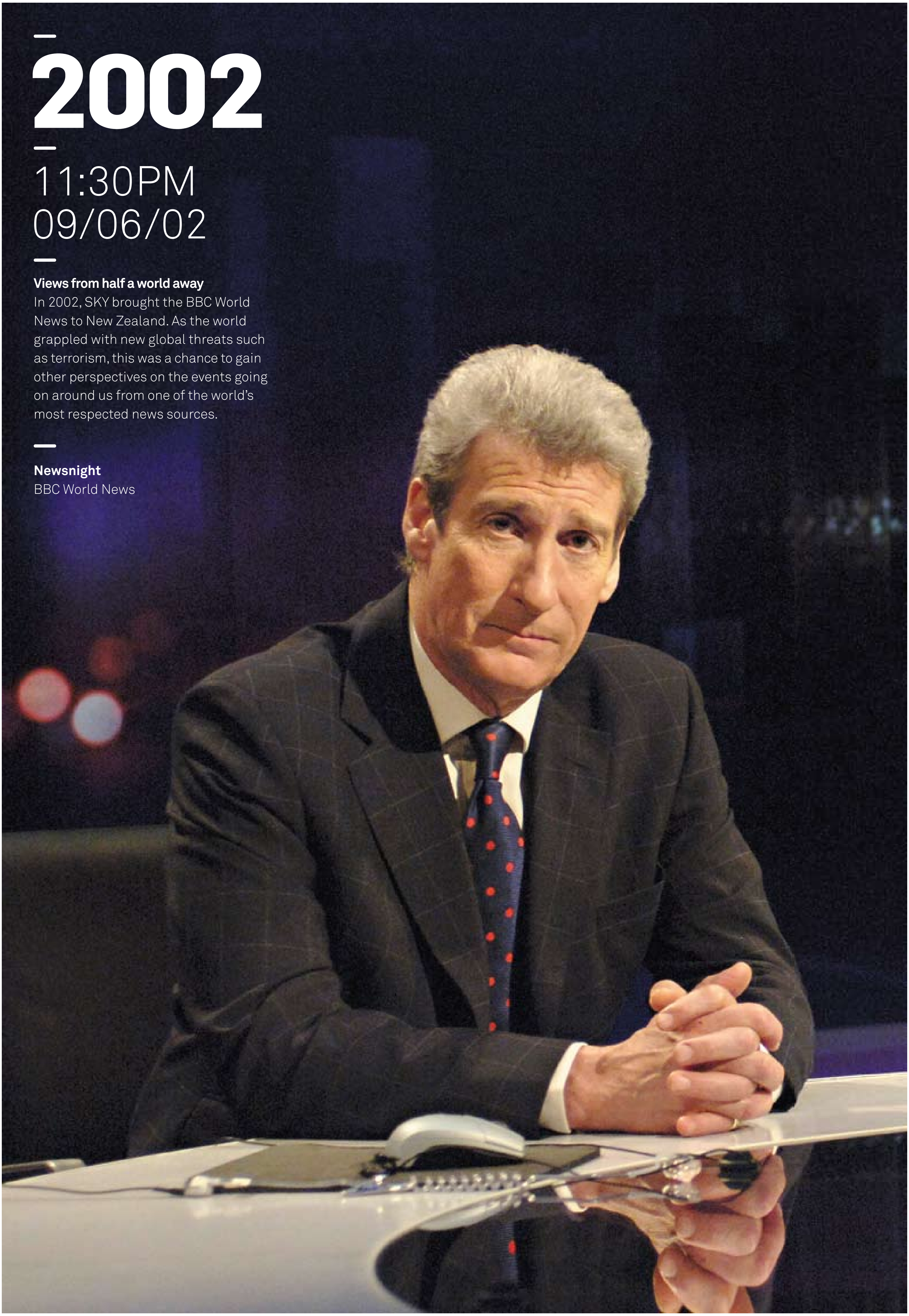
Two years ago the number of subscribers still on the UHF platform was so small that we were actually losing money when considering the $7 million of fixed costs to transmit the signal. It was clearly time to convert them to satellite.

On 10 March 2010, we converted the last UHF subscriber to digital and then held a wake for the old UHF network. In that last month we found decoders that were 20 years old and still in good working order. The average age of a UHF decoder was 16 years.

The point of this history lesson is to explain not only why we have to embrace new technology but also to explain that we don't take these steps lightly. SKY management has a proven track record of making assets last longer than their accounting life would indicate.

On 10 March 2010 we converted the last UHF subscriber to digital

We have to embrace new technology but we don't take these steps lightly



2002

11:30PM 09/06/02

Views from half a world away
In 2002, SKY brought the BBC World News to New Zealand. As the world grappled with new global threats such as terrorism, this was a chance to gain other perspectives on the events going on around us from one of the world's most respected news sources.

Newsnight
BBC World News

"What impact will the Government decision to push ahead with the Ultra Fast Broadband (UFB) roll out have on SKY? Is it a threat?"

The answer is that it would be a threat if we did nothing. When we were only on the UHF platform, commentators used to predict our demise saying that Direct to Home satellite would wipe out SKY. I was always puzzled about this and wondered why they did not think that we would adapt and take advantage of any new delivery platform.

I feel the same way about UFB that I did about the satellite – it is a great opportunity. A few years ago we launched an Online Media Player (OMP). OMP is, in effect, a virtual decoder that enables consumers to download SKY content via the internet to a computer. It was a terrible experience for consumers. It was clunky, it was slow and one All Blacks Rugby game could chew through the data caps of most households. While speed and data caps are typically the domain of the Internet Service Provider (ISP), the heat would go on SKY because we had the relationship as the actual content provider with the end user. We ended up closing down the service.

Since then, major improvements have been made to OMPs and we are currently developing a new version that we plan to launch by the end of this year. More importantly, ISPs looking to bundle with other telecommunications services, have already begun to approach SKY offering unlimited and unmetered internet access for the content that we plan to deliver.

The successful deployment of UFB can only enhance our chances of success in this area.

The reason for our growing interest in broadband delivered content is simple. As we invest in content, it is important to make that investment work as much as possible. We need to be on every type of device the customer has, whether it is a TV, PC or mobile or via satellite, cable, IPTV, broadband, WIFI or 3 and 4G. We are agnostic about technology; that means that we can extract value from our content no matter what device the consumer wants to use.

"What plans do you have for the cash flow the business is generating?" or "Are there any acquisitions that you are looking at?"

In the year just ended, SKY generated $237.4 million in cash. From this amount, we paid $58.3 million in dividends. We also repaid $29 million of debt thereby increasing the shareholders' share of the business. About $139 million was retained to expand the business internally.

With the last $11 million we made a rare decision – to purchase a business.

All my life I wanted to operate in a period of economic turmoil, yet still have a strong balance sheet and a steady cash flow. We have been in this zone for the last two years. A month did not go by without receiving approaches by individuals wanting to sell their business to us. Reviewing these potential acquisitions made me appreciate the business we have at SKY even more.

We saw good businesses selling for low cash flow multiples yet their growth prospects did not look as good as SKY's. As an investor you probably do not need me to find this type of investment for you. You can probably come across them on your own.

We believe that no matter how inexpensive a particular asset may be, if it is not growing as fast as SKY it will simply lower the value of your shareholding in our company.

However we did find one asset we liked. On 9 July 2010 we acquired the assets of On Site Broadcasting (NZ) Limited (OSB). OSB own six outside broadcast vans that are strategically sited throughout the country. The three high definition and three standard definition vans cover about 99% of the sporting events in New Zealand. SKY's share of these broadcasts is around 90%. For the last 10 years we have contracted with OSB to provide the vans and produce the feeds at each sporting venue we film at in New Zealand. They provide the equipment and the engineers and we provide the cameramen, director and commentators.

On 9 July 2010 we acquired the assets of On Site Broadcasting (NZ) Limited (OSB)

In the year just ended, we paid $58.3 million in dividends

2003

6:30PM
24/12/03

Honey, I entertained the kids
In 2003, SKY launched the Disney Channel in New Zealand and suddenly children had a whole bunch of new friends to spend time with.

My Friends Tigger and Pooh
Playhouse Disney

At the price for which we acquired the assets we think we can easily recover the cost of capital invested. OSB is of strategic importance to us as well.

In light of the Rugby World Cup being a little more than just a year away along with the other 330 or more events we need to cover each year, we could not take the risk of one of our key service providers facing an uncertain future.

This acquisition will also change the way that we approach potential domestic sporting events.

Historically, we had to factor in the cost of leasing the van in the calculation of determining the financial risk and rewards of covering an event. By owning the vans ourselves, the investment effectively becomes a fixed or sunk cost. In order to maximise returns on our investment in OSB, we are actively looking to increase the number of sporting events that we cover. This change in the economic model allowed us to provide coverage of the "Breakers" for the first time in three years.

And finally, ownership of these vans will make it easier to transition to future formats when they become available, such as 3D or some version of Super HD.

As always, I hope this letter gives you a good insight into the business and I look forward to seeing you at our Annual General Meeting at Rydges Harbourview Hotel on 28 October 2010.

John Fellet
Chief Executive Officer

2006

7:30PM
03/03/06

Look who joined us
In 2006, SKY purchased the free-to-air television channel Prime, giving New Zealanders a chance to sample more of what SKY had to offer without subscription. It's one more example of the way we've been prepared to change the face of television in this country.

Dr Who
Prime

BUSINESS OVERVIEW

SUBSCRIBERS

01 SKY has continued to increase its total subscriber base in the year to 30 June 2010 by adding a net 23,495 subscribers.

There are a total of 802,397 subscribers at 30 June 2010, with 777,636 being residential subscribers on SKY's satellite platform and TelstraClear's cable network. In March 2010 SKY decommissioned its 20 year old UHF analogue network and migrated most of these subscribers to the satellite platform.

SKY's wholesale customers have increased by 6.4% to 118,403 at 30 June 2010 partly due to the addition of Vodafone as a reseller of SKY services, in addition to Telecom and TelstraClear.

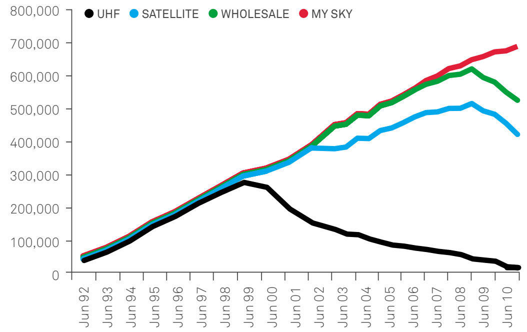
SKY has continued to promote its MY SKY HDi decoder and at 30 June 2010 189,975 subscribers were receiving their pay television services via a MY SKY decoder compared to the 103,991 subscribers at 30 June 2009. This represents 24.4% of SKY's residential subscribers compared to 14.2% of residential subscribers at 30 June 2009. There were 16,204 "other" subscribers at 30 June 2010 which includes subscribers to SKY's commercial music business SKY DMX Music and its online DVD rental business, Fatso.

CHURN

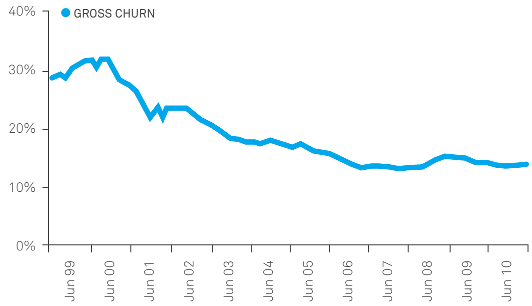
02 Churn is a measure of the percentage of subscribers who disconnect their service either voluntarily or due to a failure to pay their account. SKY calculates churn on a rolling gross annual basis, which means that each month we calculate the subscribers who have disconnected as a percentage of the average subscribers for that month and total these monthly percentages over the preceding 12 months.

Annual gross churn has decreased to 13.9% during the 2010 year from 14.0% last year. MY SKY churn was 10.1% and churn on standard digital decoders was 14.8%. Churn should continue to drop as MY SKY penetration increases.

01 **SUBSCRIBERS**



02 **ROLLING ANNUAL GROSS CHURN**



BUSINESS OVERVIEW

CONTINUED

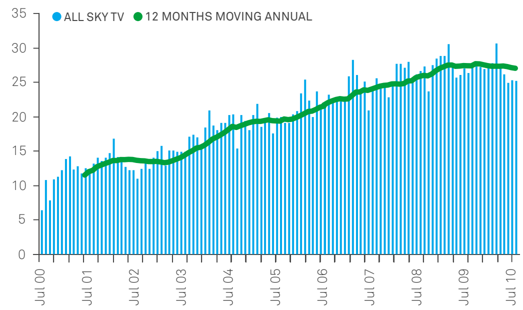
VIEWING

Viewing increased on both the free-to-air channels and on SKY channels during the year. This is quite common during recessions when more people are spending more time at
03 home watching television. SKY's share of viewing dropped slightly from 28.6% to 28.2%. Free-to-air viewing increased because Prime increased its viewership by being added to the FreeView platform. Likewise viewing on channels TVNZ 6
04 and TVNZ 7 increased when they were added to the SKY platform.

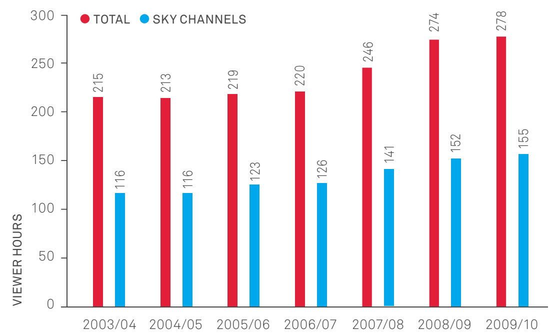
SKY continues to offer pay-per-view (PPV) programming on its satellite platform, with 14 scheduled PPV channels.
05 Buy rates, which measure the percentage of subscribers who purchase a title each month, have dropped from 23% to 20%. A total of 1,710,436 PPV buys were purchased in 2010 compared to 1,827,117 buys purchased in 2009. One of the reasons for the decline in PPV movie buys has been the substitute viewing of recorded content on MY SKY decoders.

During the year there has continued to be growth in the average subscriber viewing hours for the basic tier of channels (up 5%) and sports channels (up 3%) with annual viewing hours on the movie tier declining 10% from June 2009 to June 2010. We believe this decline is offset by movies being recorded on MY SKY decoders which are replayed later. At this stage ACNielsen, the ratings agency, does not collect viewing statistics on the MY SKY decoder. This is scheduled to change over the next two years. The trend in SKY's viewing by genre over recent years is
06 illustrated in graph 06 opposite.

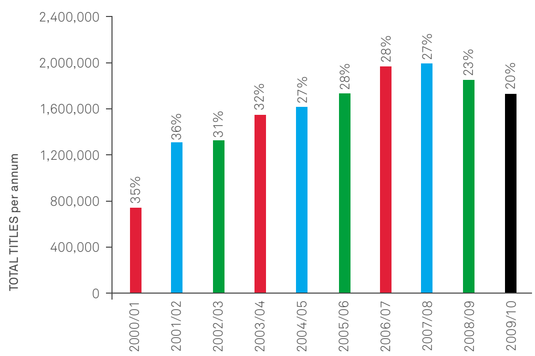
03 **SKY TV % SHARE OF VIEWING IN ALL NZ HOMES**



04 **AVERAGE HOURS VIEWING SKY DIGITAL PER MONTH, PER SUBSCRIPTION**



05 **PPV BUYS WITH BUY RATE %**



PROGRAMMING INITIATIVES

Two new channels were launched in 2010. The Travel Channel was launched in May 2010 and TVNZ Heartland was launched in June 2010. The Travel Channel provides programming on all aspects of the travel experience, from luxury getaways to backpacking adventures providing practical advice in selecting and planning real holidays while also allowing viewers to experience travel destinations from all across the world. TVNZ Heartland is the first pay television channel programmed for SKY by the state owned broadcaster, TVNZ. This channel provides subscribers access to TVNZ's extensive programme archive and includes classic and contemporary shows, including iconic series such as "Country Calendar". This channel includes documentaries, local drama, films, festival series and lifestyle programming.

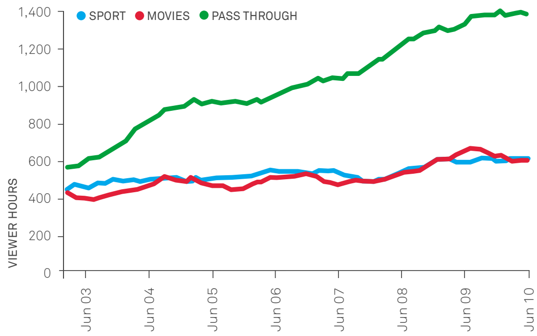
In February 2010 SKY broadcast the Winter Olympics live from Vancouver. SKY dedicated 4 channels to 24 hour coverage for the 14 days of the event and included 17 hours per day of free-to-air coverage on Prime.

During the year SKY also secured the exclusive pay and free-to-air rights to the Delhi Commonwealth Games to be held in October 2010. SKY is planning to supplement 17 hours per day of free-to-air coverage on Prime with five dedicated channels of live games coverage on SKY Sport.

In April 2010 SKY was successful in renewing its exclusive rights to the SANZAR rugby competitions for a further five years from 2011. This contract provides SKY with rights to a new Super 15 Rugby competition format, Tri Nations test match rugby between Australia, South Africa and New Zealand and New Zealand's domestic rugby competition, recently renamed the ITM Cup. The contract also provides for the Tri-Nations to be expanded to include Argentina, subject to certain conditions.

During the year SKY was appointed the host broadcaster for the 2011 Rugby World Cup and also secured the pay television rights to all 48 games in the tournament. The IRB awarded TVNZ, MediaWorks and Maori TV with free-to-air rights to certain games in the tournament.

06 **SKY VIEWER HOURS GENERATED PER SUBSCRIBER PER ANNUM**



BUSINESS OVERVIEW

CONTINUED

MY SKY HDi

The MY SKY HDi decoder was launched in August 2008. At 30 June 2010 there were 189,975 MY SKY subscribers, of which 19,727 are the original MY SKY non HDi subscribers. This represents 24.4% of SKY's residential subscriber homes. This is an increase of 85,984 from the 103,991 MY SKY subscribers at 30 June 2009. In 2010 19% of MY SKY installs were to new SKY subscribers compared to 21% last year.

Subscribers have had the choice of paying a one-off installation fee of $599 (incl. GST) for a MY SKY HDi decoder or a lower installation fee with an ongoing fee of $15 (incl. GST).

As at 30 June 2010, 6% of subscribers had opted to pay the up front fee compared to 12% paying up front in 2009. MY SKY HDi subscribers also have the option of paying $10 per month (incl. GST) to receive SKY's HD channels, or paying $25 per month (incl. GST) for a multiroom decoder including access to SKY's HD channels. At 30 June 2010, 23% of MY SKY HDi subscribers had opted to purchase the SKY HD channels and 35% had installed multiroom. This means 58% of the MY SKY subscribers were receiving HD services, which is the same percentage as last year. The ARPU from MY SKY subscribers to 30 June 2010 was $84.61, an increase of 8.5% on the $78.02 ARPU at 30 June 2009.

VALUE

To be successful SKY must offer value to its subscribers. Every month subscribers make a value assessment and decide whether to continue to pay for their SKY television service.

The monthly retail prices (incl. GST) of SKY's most popular
07 packages at 30 June are shown in table 07.

Subject to limited restrictions, subscribers can alter the packages that they subscribe to at any time, so there is always movement in the number of subscribers
08 subscribing to different services. Table 08 summarises the percentage of subscribers to each of SKY's core services at 30 June 2010.

The percentage of subscribers to SKY's premium package of "Basic + Sport + Movies" has remained stable this year while penetration of the "Basic + Sport" package has increased from 36% to 38%. A total of 555,346 subscribers receive SKY Sports tier, compared to 506,240 last year.

07 **PRICE PER MONTH**

	2010 $	2009 $	% INC
Basic	48.93	48.43	1.0
Basic + Movies	69.18	68.19	1.5
Basic + Sport	66.70	65.19	2.3
Basic + Sport + Movies	84.95	82.95	2.4

08 **SUBS BY TIER**

	2010	2009
Basic + Sport + Movies	38%	38%
Basic + Sport	38%	36%
Basic + Movies	7%	8%
Other	17%	18%

09 **MY SKY TIER PENETRATION**

	2010	2009
Basic + Sport + Movies	49%	54%
Basic + Sport	33%	28%
Basic + Movies	8%	9%
Other	10%	9%

While there are fewer MY SKY subscribers purchasing the premium package of "Basic + Sport +Movies" this year,
09 there are still a greater proportion of MY SKY subscribers purchasing the premium package compared to the
10 penetration of this premium package amongst digital subscribers (see tables 09 and 10).

SKY also keeps track of the value of SKY relative to other pay TV companies internationally. To do this we construct a
11 "Big Mac Index" for pay TV services. Graph 11 indicates the number of Big Mac hamburgers it would take to purchase a full package of pay TV services in a particular country.

The chart highlights that SKY continues to have one of the more affordable pay television offerings based on this measure although the relativities have changed following the turmoil of the global financial crisis. We recognise that SKY's full package of pay TV services is a lot smaller than that offered in other countries, but believe that SKY needs to continue to offer an affordable service given New Zealand's lower level of disposable income.

ACTIVATIONS

The level of installation activity is determined by a combination of the level of churn, net gain in new subscribers, migration of subscribers from the UHF to the satellite network and the number of subscribers transferring due to a change of address. The total number of customer activations in 2010 was 217,987 compared to 220,235 in 2009.

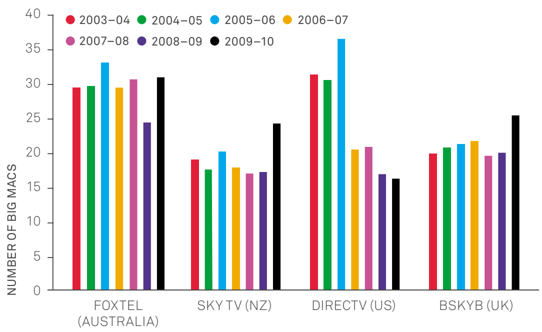
There are around 1.3 million homes in New Zealand that have been installed with a SKY satellite dish, which represents approximately 80% of New Zealand homes. The benefit of this is that around 68.3% of SKY's activations were "decoder" only installs in 2010, which are significantly cheaper than the cost of a full install that includes a dish, telephone jack, internal wiring and labour costs.

SKY is continuing to market its "multiroom" service to subscribers, which enables subscribers to receive access to SKY services from a second decoder in their home for $25 per month (incl. GST). The growth in the number of
12 multiroom outlets is shown in table 12.

10 **DIGITAL TIER PENETRATION**

	2010	2009
Basic + Sport + Movies	34%	35%
Basic + Sport	39%	37%
Basic + Movies	7%	8%
Other	20%	20%

11 **BIG MAC INDEX**



12 **MULTIROOM OUTLETS**

	2010	2009
Multiroom UHF	–	12,086
Multiroom Satellite	127,703	91,888
Total Multiroom	127,703	103,974

BUSINESS OVERVIEW

CONTINUED

INSTALLATION COSTS

The majority of SKY's capital expenditure reflects the cost of installing new subscribers. The success of MY SKY HDi has meant that SKY no longer has to acquire standard digital decoders as these decoders are recycled from existing subscribers migrating to the new MY SKY HDi decoder. In 2010, the average cost of installing digital subscribers (material/labour) was $382 and the average cost of a MY SKY HDi decoder was $475. The increase in average install costs from $308 in 2009 reflects additional costs of installing new quad low noise blocks (LNBs) on MY SKY installs. These quad LNBs provide the capability to also access the Optus D3 satellite which could be utilised for broadcasting additional HD channels in the future. The decline in MY SKY decoder costs from $546 reflects a reduction in the US cost of these decoders.

SATELLITE

SKY is currently utilising six transponders on the Optus D1 satellite, with one of these transponders being dedicated to the transmission of HD content. The satellite is located at 160ºE, which is where the satellite dishes installed by SKY are positioned.

Optus launched the D2 satellite at the 152ºE position in October 2007 and the D3 satellite was launched in August 2009 at the 156ºE position. Both of these satellites have transponders capable of delivering direct to home (DTH) satellite services to New Zealand. SKY has agreed a restoration plan with Optus that would see satellite capacity restored within a short time should there ever be a failure of SKY's primary D1 satellite.

SKY has an option to acquire the last New Zealand capable transponder on the Optus D1 satellite.

To assist in the recovery of services should there ever be a failure of the D1 satellite, SKY has developed a quad LNB that can be electronically switched to the 156ºE orbital location. This would enable SKY to utilise the dedicated back-up transponders that are included on the new Optus D3 satellite. Currently approximately 219,000 homes have been fitted with the new quad LNB.

TELEVISION STATION UPGRADE

SKY completed the upgrade of its Panorama Road television station to a new digital server based HD facility in June 2008. SKY's HD sports and movie channels were successfully migrated onto the new infrastructure in July 2008 and the remainder of SKY's channels were migrated by October 2008.

SKY recently completed the upgrade of its post production facilities, which allows for desk-top editing and fast turn around of content within this digital environment.

DVD RENTAL BUSINESS

In June 2008 SKY merged its online DVD rental business, DVD Unlimited with two other players, Fatso and Movieshack. SKY owns 51% of the entity that trades under the name Fatso.

The online DVD rental business model enables subscribers to select DVD and game titles from a website and, depending on the package that is subscribed to, a subscriber can access one to ten titles at any time. Subscribers can keep the DVDs as long as they want to and there are no late fees. When a title is returned another title is posted to the subscriber from their selected list.

At 30 June 2010 there were 15,816 Fatso subscribers, up from 12,348 at 30 June 2009.

WHOLESALE PARTNERSHIPS

SKY currently wholesales its pay television services to telecommunication companies TelstraClear, Vodafone and Telecom, who bundle SKY's services with their telephony and broadband offerings.

SKY benefits from the additional marketing efforts of these telecommunication companies as they promote their bundled services, while they benefit by being able to offer their customers access to SKY's premium television content.

SKY recently renewed its agreement with TelstraClear for a further four years to January 2013 and entered into a new reseller agreement with Vodafone in December 2008 for a period of three years.

SKY VIA BROADBAND

In May 2008 SKY launched a service that enabled subscribers to download and stream video content over the internet to their PCs. The service was unsuccessful due to low broadband speeds, data caps on subscriber broadband packages and limitations in the media player that subscribers were required to download to access the service.

SKY is developing a new broadband delivered video service that leverages more advanced internet technology, including utilisation of a local content delivery network to improve the efficiency of delivering video to subscribers via the internet within New Zealand. We hope to launch the service by the end of the year.

There is significant investment planned by Government and others in New Zealand's broadband networks and we are hopeful that this may give SKY another viable method of delivering video content to its subscribers in the future.

PRIME

In Febuary 2006 SKY purchased the free-to-air television (FTA) network, Prime. SKY has invested in new content for Prime, as well as broadcasting delayed coverage of major sporting events on this channel. SKY has also competed against TVNZ (owner of FTA channels TV1 and TV 2) and MediaWorks (owner of FTA channels TV3 and C4) for access to major US television output deals, including the Disney, Fox and Warner deals but has not been successful to date in securing any of this content which continues to be provided exclusively to TVNZ and MediaWorks.

Prime has increased its share of the television audience (all 5+) in 2010 to an average of 5.5% from 5.2% in 2009. This has not been translated into additional revenue as Prime has been adversely impacted by the decline in the television advertising market during the first two quarters of the year. As a small player, Prime is impacted more significantly when the market declines as the larger networks discount their inventory to attract advertisers. There have been signs in the last two quarters that the television advertising market might be recovering after seven quarters of decline, which should be positive for Prime.

ON SITE BROADCASTING (NZ) LIMITED

In July 2010 SKY announced that it had purchased certain assets and liabilities of On Site Broadcasting (NZ) Limited (OSB) from the Australian media company, Prime Media Group, for a cost of $13.5 million. OSB has been providing SKY with the broadcasting vans, equipment and personnel required to produce sporting events around New Zealand for the past nine years. SKY has acquired OSB's three high definition and three standard definition broadcasting vans and associated equipment and 19 staff. SKY also entered into a joint venture with Prime Media Group to pursue third party broadcast contracts and will share these earnings on a 50/50 basis.

2008

8:30PM
13/07/08

Never get caught out again
In 2008, SKY completed upgrading its operations to digital HD, and also launched its very own HD personal video recorder. That meant there was no longer any chance of missing a programme because you were out, and, with HD, no chance of missing every detail when you were in.

Spiderman 3
SKY Movies

FINANCIAL OVERVIEW

SUMMARY

SKY has earned a net profit after tax (“NPAT”) of $103.0 million for the year ended 30 June 2010, a 17% increase on the previous year’s net profit after tax of $88.1 million.

Earnings before interest, tax, depreciation and amortisation (“EBITDA”) increased by 10.2% to $287.5 million.

The results are summarised as follows:

FOR THE YEARS ENDED 30 JUNE IN NZD MILLIONS	2010	2009	% INC/(DEC)
Financial performance data			
Total revenue	741.8	692.0	7.2
Total operating expenses	454.3	431.0	5.4
EBITDA	**287.5**	**261.0**	**10.2**
Less			
Depreciation and amortisation	112.5	96.1	17.1
Net interest expense and financing charges	31.0	36.6	(15.3)
Unrealised (gains)/losses on currency and other	(2.5)	2.5	200.0
Net profit before income tax	**146.5**	**125.8**	**16.5**

A more detailed commentary on these results is provided below.

REVENUE ANALYSIS

SKY’s total revenue increased by 7.2% to $741.8 million, as follows:

FOR THE YEARS ENDED 30 JUNE IN NZD MILLIONS	2010	2009	% INC/(DEC)
Residential	606.7	555.2	9.3
Commercial	37.9	36.5	3.8
SKYWATCH	12.1	12.3	(1.6)
Total subscription revenue	**656.7**	**604.0**	**8.7**
Advertising	53.7	57.8	(7.1)
Installation, programme sales and other	31.4	30.2	4.0
Total other revenue	85.1	88.0	(3.3)
Total revenue	**741.8**	**692.0**	**7.2**

Residential subscription revenue increased 9.3% to $606.7million reflecting a 5.8% increase in subscribers and a 5.6% increase in average revenue per subscriber (ARPU). ARPU is a measure of the average revenue that SKY earns from subscribers each month.

FINANCIAL OVERVIEW

CONTINUED

The following chart provides a summary of the increase in average monthly revenue per residential subscriber:

NZD	2010	2009	% INC/(DEC)
UHF	–	37.24	–
DBS excluding wholesale	**65.76**	66.57	(1.2)
DBS and wholesale	**55.51**	53.30	4.1
MY SKY	**84.61**	78.02	8.4
Total UHF and DBS excluding wholesale	**65.35**	65.31	–
Total UHF, DBS and MY SKY including wholesale	67.61	64.00	5.6

Commercial revenue is the revenue earned from SKY installations at hotels, motels, restaurants and bars throughout New Zealand. This revenue increased 3.8% to $37.9 million in 2010, reflecting a 4.8% increase in commercial subscribers and an increase in the purchase of additional services.

SKYWATCH is SKY's monthly programme guide that is sold for $2.60 per month (incl.GST). Revenue from the guide decreased 1.6% to $12.1million. There were 441,575 subscribers to *SKYWATCH* at 30 June 2010.

Advertising sales revenue decreased 7.1% to $53.7 million in 2010. Pay television advertising revenues reduced from $36.0 million in 2009 to $32.9 million in 2010, a decrease of $3.1 million (8.6%). This decrease is also attributable to a $1.0 million decrease in Prime revenues from $21.8 million in 2009 to $20.8 million in 2010.

Installation, programme sales and other revenues increased by 4.0% to $31.4 million in 2010. There has been a $1.6 million decline in satellite installation revenues to $2.7 million offset by a $2.7 million increase in other revenues including revenue from the DVD rental business Fatso.

EXPENSE ANALYSIS

A further breakdown of SKY's operating expenses for 2010 and 2009 is provided below:

IN NZD MILLIONS	2010	2010 % OF REVENUE	2009	2009 % OF REVENUE	% INC/(DEC)
Programming	**246.2**	**33.2**	230.0	33.2	7.0
Subscriber management	**60.2**	**8.1**	54.5	7.9	10.5
Broadcasting and infrastructure	**74.5**	**10.0**	70.3	10.2	6.0
Sales and marketing	**39.2**	**5.3**	41.7	6.0	(6.0)
Advertising	**16.9**	**2.3**	17.2	2.5	(1.7)
Other administrative	**17.3**	**2.3**	17.3	2.5	–
Depreciation and amortisation	**112.5**	**15.2**	96.1	13.9	17.1
Total operating expenses	566.8	76.4	527.1	76.2	7.5

Programming costs comprise both the costs of purchasing programme rights and also programme operating costs. Programme rights costs include the costs of sports rights, pass-through channel rights (eg Disney Channel, Documentary Channel, etc), movies (including PPV) and music rights. Programme operating costs include the costs of producing live sports events, satellite and fibre linking costs, in-house studio produced shows (such as Reunion) and taping, formatting, editing and adding other features to programmes. The following table provides a split between programme rights and operating costs over the last two years:

IN NZD MILLIONS	2010	2009	% INC/(DEC)
Programme rights	195.8	179.3	9.2
Programme operations	50.4	50.7	(0.6)
Total	**246.2**	**230.0**	**7.0**

SKY's programming expenses have been held at 33.2% of revenue in 2010.

A significant proportion of SKY's programme rights costs are in US dollars. This means the NZ dollar cost included in SKY's accounts is affected by the strength of the NZ dollar during a particular year and by SKY's foreign exchange hedging policy.

The Board's policy is to hedge a minimum of 85% of the forecast exposures over 0 to 12 months and up to 70% of variable exposures over 13 to 36 months. Fixed price contracts denominated in foreign currencies are fully hedged for a minimum of 36 months from the time they are entered into.

In 2010, SKY made US dollar operating expense payments at an average exchange rate of 65.1cents compared to the 67.1 cent rate in the previous year. Based on the 2010 results, a one cent movement in the USD/NZD rate would have affected operating costs by around NZD1.7 million.

During 2010 SKY's total rights cost of NZD 195.8 million included rights denominated in foreign currencies of USD 66.9 million and AUD 34.5 million. These currencies were hedged at an average hedge rate of 65.1 cents for the USD and 85.4 cents for the AUD. If these costs had been converted at the average spot rate total programme rights costs would have been approximately $184.9 million.

SKY's programming costs incorporate both fixed and variable costs. The majority of sports rights are purchased for a fixed annual cost regardless of how many subscribers there are to the SKY's sports tier. The rights costs typically require SKY to meet the costs of producing any live games in New Zealand, which is disclosed as the programme operations costs in the table above. These costs can also be considered as fixed. These fixed costs can increase over time as SKY adds new sport content to its platform.

The programme rights and operations costs for channels programmed and built by SKY such as the Box, Vibe and Prime, are also a fixed cost. Again, the level of fixed costs will depend on the nature of the content that is purchased and the term of any contract.

The costs of purchasing third party channels such as the Disney and History channels are typically paid for on a cost-per-subscriber basis, as is the cost of purchasing movies for the Movie tier and PPV service. These costs are therefore variable and increase as SKY's subscriber base increases.

In 2010, 48% of SKY's total programming costs of $246.2million could be regarded as fixed costs, compared to 59% of the $230.0 million of programming costs in 2009.

FINANCIAL OVERVIEW

CONTINUED

Subscriber management cost includes the costs of servicing and monitoring equipment installed at subscribers' homes, indirect installation costs, the costs of SKY's customer service department and general administrative costs associated with SKY's eleven provincial offices.

In 2010 subscriber management costs increased $5.7 million (10.5%) to $60.2 million. This increase is primarily due to a $1.8 million increase in employee costs, a $1.4 million increase in bad debt expense, a further $1.2 million in trouble calls and additional billing costs of $0.8 million.

Sales and marketing costs include the costs of marketing SKY to existing and new subscribers, subscriber acquisition costs including costs of advertising campaigns, sales commissions paid to direct sales and tele-sales agents, the costs of producing on-air promotions for SKY and Prime, marketing costs for Prime and the costs of producing SKYWATCH magazine. Sales and marketing costs decreased 6.0% to $39.2 million in 2010.

Advertising costs include the costs of operating SKY's advertising sales department which sells advertising on both SKY and Prime channels and includes the 20% sales commission that is paid to advertising agencies. Advertising sales costs decreased 1.7% to $16.9 million, reflecting the lower advertising revenues in 2010.

Broadcasting and infrastructure costs consist of transmission and linking costs for transmitting SKY and Prime's UHF signals from its studios in Auckland to other locations in New Zealand and the costs of operating SKY's television stations at Mount Wellington and Albany. The costs of leasing six transponders on the Optus D1 satellite are included, as is the cost of high definition television broadcasting. SKY's UHF linking contract with Kordia ended in March 2010, saving $7.5 million per annum.

Broadcasting and infrastructure costs increased by $4.2 million (6.0%) to $74.5 million, including an additional $4.0 million due to a full year of costs for the sixth Optus transponder.

Other administrative costs include the overhead costs relating to corporate management and the finance department. These costs have remained at $17.3 million.

Depreciation and amortisation costs includes depreciation charges for subscriber equipment including aerials, satellite dishes and decoders owned by SKY and fixed assets such as television station facilities. Depreciation and amortisation costs increased by $16.4 million (17.1%) to $112.5 million reflecting the increased investment in additional MY SKY decoders and in broadcasting and infrastructure costs.

Interest and financing costs have reduced by 15.3% to $31.0 million due to SKY's weighted average interest cost decreasing from 7.2% in 2009 to 6.2% in 2010, as follows:

	2010	2009
Bank loans	6.5%	7.0%
Bonds	5.5%	7.4%
Combined weighted average	6.2%	7.2%

Taxation expense has increased by $5.8 million (15.5%) to $43.5 million reflecting the $20.7 million (16.5%) increase in pre-tax profit. The taxation expense also incorporates an additional cost of $2.5 million being the deferred tax adjustment resulting from the elimination of the depreciation of buildings in the budget on 27 May 2010. This is offset by an amount of $3.2 million resulting from the reduction in deferred tax liability due to the decrease in the corporate tax rate to 28% from the next financial year.

CAPITAL EXPENDITURE

SKY's capital expenditure over the last five years is summarised as follows:

IN NZD MILLIONS	2010	2009	2008	2007	2006
Subscriber equipment	40.5	63.2	22.4	24.0	25.9
Installation costs	62.0	46.5	40.2	38.0	36.4
Building	4.3	0.9	2.7	2.2	1.7
PVR project	–	–	–	–	9.0
Broadcast upgrade [1]	14.7	8.6	42.6	12.3	8.1
Other	17.5	13.0	11.6	4.9	5.7
Total capital expenditure	139.0	132.2	119.5	81.4	86.8

[1] Includes $9.8 million for Prime broadcasting upgrade in 2006 and 2007.

Capital expenditure increased by $6.8 million (5.1%) in 2010 to $139.0 million.

The broadcast upgrade costs reflect the costs of installing new post production facilities at SKY's Panorama Road TV station.

Subscriber equipment costs reduced by $22.7 million, due to 38,748 fewer MY SKY decoders being purchased and a reduction in the average cost of $475 versus an average cost of $546 in 2009.

Installation costs have increased by $15.5 million due to the costs of migrating 22,183 subscribers from SKY's UHF platform to its satellite platform and the additional cost of installing the new quad LNBs in MY SKY homes.

The building cost increase was due to the purchase of an adjacent warehouse in Mt Wellington for $3.1 million.

BOARD OF DIRECTORS

PETER MACOURT

ROBERT BRYDEN

JOHN FELLET

MICHAEL MILLER

JOHN HART

HUMPHRY ROLLESTON

JOHN WALLER

PETER MACOURT
CHAIRMAN

Mr Macourt was appointed as chairman of the board of SKY in August 2002. He is currently chief operating officer of News Limited based in Sydney, Australia. Mr Macourt joined News Limited in 1983. He was appointed as its deputy chief executive in 1998 and to his current position at News Limited in July 2001. Mr Macourt is a director of News Limited, Foxtel Management Pty Limited, Fox Entertainment Precinct Pty Limited, Premier Media Group Pty Limited and various other companies. He holds a degree in commerce from the University of New South Wales.

ROBERT BRYDEN
DEPUTY CHAIRMAN

Mr Bryden was appointed a director of SKY in 1990 and deputy chairman in February 2001. He is the managing director of Todd Capital Limited. He is also a director of Todd Land Holdings Limited, Todd Winegrowers Limited, Crown Castle Australia Pty Limited and various other companies. Mr Bryden holds a BCA from Victoria University in Wellington.

JOHN FELLET
DIRECTOR AND CHIEF EXECUTIVE

Mr Fellet joined SKY as chief operating officer in 1991. He was appointed as chief executive in January 2001 and as a director of SKY in April 2001. Mr Fellet holds a BA degree in Accounting from Arizona State University, United States and has 25 years' experience in the pay television industry, including ten years' experience with Telecommunications Inc. in the United States.

MICHAEL MILLER
DIRECTOR

Mr Miller was appointed a director of SKY in September 2004. He is currently the managing director of Nationwide News Limited (a division of News Limited). Joining News Limited in 1991, he was News Limited's Group Marketing Director for eight years. Mr Miller is a director of Rugby International Pty Limited, News Limited, Premier Media Group Pty Limited and various other companies. He has a degree in applied science in communications from the University of Technology in Sydney.

JOHN HART
DIRECTOR

Mr Hart was appointed a director of SKY in October 1997. He is also a former coach of the All Blacks. Mr Hart was employed by Fletcher Challenge Limited from 1966 to 1995 in a variety of positions including employee relations director. He currently manages his own consultancy business. Mr Hart's other directorships include Bayley Corporation Limited, New Zealand Warriors Limited and Global Rugby Enterprises Limited.

HUMPHRY ROLLESTON
DIRECTOR

Mr Rolleston was appointed as a director of SKY in September 2005. He was an independent director of Independent Newspapers Limited (INL) from 1999 until INL's merger with SKY in July 2005. He is a director of Asset Management Limited, Mercer Group Limited, Matrix Security Limited, Infratil Limited and various other companies.

JOHN WALLER
DIRECTOR

Mr Waller was appointed as a director of SKY and member of the audit and risk committee in April 2009. He was a partner at PricewaterhouseCoopers for over 20 years, was a member of their Board and led their Advisory practice.

He is the Chairman of the BNZ, and a director of Fonterra Co-operative Group Limited, National Australia Bank Limited, Alliance Group Limited, Donaghys Limited and various other companies. He is also on the NZ Takeovers Panel, a member of the Auckland Transition Agency, Chairman of the Eden Park Redevelopment Board and Eden Park Trust.

2010

5:15PM
17/02/10

Cool as ...
In 2010 SKY and Prime beamed the Vancouver Winter Olympics into SKY subscribers' living rooms as our winter sportspeople went up against the best in the world.

Vancouver Winter Olympics
SKY Sport & Prime

2010
FINANCIALS

SKY
NETWORK
TELEVISION
LIMITED

FINANCIAL TRENDS STATEMENT

The selected consolidated financial data set out below have been derived from the consolidated financial statements. The data should be read in conjunction with, and are qualified in their entirety by reference to, the consolidated financial statements and accompanying notes included in the annual report.

INCOME STATEMENT – FIVE YEAR SUMMARY

FOR THE YEARS ENDED 30 JUNE IN NZD 000	2010	2009	2008	2007	2006
Total revenue	**741,836**	691,959	658,751	618,458	548,954
Total operating expenses [1]	**454,336**	430,998	392,168	369,094	301,216
EBITDA [2]	**287,500**	260,961	266,583	249,364	247,738
Less/(Plus)					
Depreciation and amortisation	**112,506**	96,076	77,971	84,988	106,077
Net interest expense and financing charges	**30,974**	36,559	43,866	46,550	50,615
Unrealised (gains)/losses on currency and other	**(2,498)**	2,524	684	58	1,003
Net profit before income tax	**146,518**	125,802	144,062	117,768	90,043

BALANCE SHEET – FIVE YEAR SUMMARY

AS AT 30 JUNE IN NZD 000	2010	2009	2008	2007	2006
Property, plant, equipment and non-current intangibles	**342,124**	315,665	279,650	237,440	241,862
Goodwill	**1,423,427**	1,423,427	1,423,077	1,422,115	1,422,115
Total assets	**1,909,161**	1,872,797	1,834,656	1,780,181	1,818,831
Total debt and lease obligations	**472,117**	500,550	501,983	531,415	610,017
Working capital [3]	**56**	(6,658)	(21,791)	(22,580)	19,814
Total liabilities	**658,214**	666,272	652,998	664,870	720,062
Total equity surplus	**1,250,947**	1,206,525	1,181,658	1,115,311	1,098,769

[1] Exclusive of depreciation and amortisation.

[2] Net profit/(loss) before income tax, interest expense, depreciation and amortisation, unrealised gains and losses on currency and share of loss of equity accounted investee.

[3] Working capital excludes current borrowings and bonds.

OTHER FINANCIAL DATA (UNAUDITED)

FOR THE YEARS ENDED 30 JUNE IN NZD 000	2010	2009	2008	2007	2006
Capital expenditure (accrual basis) [1]	**138,994**	132,178	119,465	81,416	86,854
Free cash inflows/(outflows) [2]	**98,380**	58,049	83,917	92,410	(56,187)

[1] This does not include assets purchased as part of the acquisition of "The Arts Channel" in 2009, Screen Enterprises Limited in 2008 and Prime during 2006.

[2] Free cash inflows (outflows) are defined as cash flows from operating activities less cash flows from investing activities.

The following operating data has been taken from the Company records and is not audited:

SUBSCRIBER DATA – FIVE YEAR SUMMARY

FOR THE YEARS ENDED 30 JUNE	2010	2009	2008	2007	2006
Subscribers – UHF:					
Residential	–	22,772	31,134	53,679	64,927
Commercial	–	400	521	667	780
Total UHF	–	23,172	31,655	54,346	65,707
Subscribers – DBS (Satellite):					
Residential	**659,233**	623,564	578,016	529,830	492,381
Residential – wholesale [(2)]	**118,403**	111,260	120,170	113,961	97,812
Commercial	**8,557**	8,167	7,995	7,789	7,234
Total DBS	**786,193**	742,991	706,181	651,580	597,427
Subscribers – Other: [(3)]	**16,204**	12,739	10,740	5,285	4,136
Total subscribers	**802,397**	778,902	748,576	711,211	667,270
MY SKY subscribers [(5)]	**189,975**	103,991	–	–	–
Total number of households in New Zealand [(1)]	**1,622,200**	1,603,400	1,584,800	1,566,800	1,548,700
Percentage of households subscribing to the SKY network:					
Total UHF and DBS – residential	**47.9%**	47.2%	46.0%	44.5%	42.3%
Gross churn rate [(4)]	**13.9%**	14.0%	14.9%	13.4%	13.5%
Average monthly revenue per residential subscriber:					
UHF	**30.82**	37.24	38.83	39.68	39.51
DBS excluding wholesale	**65.76**	66.57	66.12	64.88	63.13
DBS and wholesale	**55.51**	53.30	52.15	50.88	48.39
MY SKY	**84.61**	78.02	n/a	n/a	n/a
Total UHF and DBS excluding wholesale	**65.35**	65.31	64.08	62.27	60.01
Total UHF, DBS and MY SKY including wholesale	**67.61**	64.00	62.10	60.50	58.30
Additional outlets					
Additional Outlets					
UHF	–	12,086	18,953	24,400	29,503
Satellite	**127,703**	91,888	65,817	49,351	28,806
Total	**127,703**	103,974	84,770	73,751	58,309

(1) Based on New Zealand Government census data as of March 2006. Prior year comparatives have been adjusted to reflect updated census data.

(2) Includes subscribers receiving SKY packages via affiliate services, such as arrangements with TelstraClear, Telecom & Vodafone.

(3) Includes subscribers to programmed music and online DVD rentals via SKY's subsidiary companies, SKY DMX Music Limited and Screen Enterprises Limited.

(4) Gross churn refers to the percentage of residential subscribers over the twelve-month period ended on the date shown who terminated their subscription, net of existing subscribers who transferred their service to new residences during the period.

(5) Included in total subscribers.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors of SKY Network Television Limited (the Company) are responsible for ensuring that the financial statements of the Company give a true and fair view of the income statements of the Company and the Group as at 30 June 2010 and their balance sheets and cash flows for the year ended on that date.

The directors consider that the financial statements of the Company and the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider they have taken adequate steps to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The directors have pleasure in presenting the financial statements of the Company and Group for the year ended 30 June 2010.

The board of directors of SKY Network Television Limited authorise these financial statements for issue on 19 August 2010.

For and on behalf of the board of directors

Peter Macourt
Chairman

Robert Bryden
Director

Date: 19 August 2010

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2010

		GROUP		COMPANY	
IN NZD 000	NOTES	30 JUN 10	30 JUN 09	30 JUN 10	30 JUN 09
REVENUE					
Residential satellite subscriptions		594,873	534,982	594,873	534,982
Other subscriptions		61,882	69,021	61,882	69,021
Installation		14,658	16,210	14,645	16,191
Advertising		53,714	57,713	53,714	57,713
Other income		16,709	14,033	11,490	9,633
		741,836	691,959	736,604	687,540
EXPENSES					
Programme rights		195,803	179,293	195,637	179,127
Programme operations		50,430	50,732	50,430	50,732
Subscriber management		60,169	54,506	57,265	51,714
Sales and marketing		39,161	41,690	38,579	41,390
Advertising		16,906	17,214	16,906	17,214
Broadcasting and infrastructure		74,541	70,261	74,416	70,131
Depreciation and amortisation	6	112,506	96,076	111,475	94,717
Corporate		17,326	17,302	17,238	17,174
		566,842	527,074	561,946	522,199
Operating profit		174,994	164,885	174,658	165,341
FINANCIAL (EXPENSE)/INCOME					
Finance income		440	3,262	431	3,245
Finance expense		(31,414)	(39,821)	(31,414)	(39,821)
Realised exchange gain/(loss)		1,053	(438)	1,053	(438)
Unrealised exchange gain/(loss)		1,445	(2,086)	1,445	(2,086)
	7	(28,476)	(39,083)	(28,485)	(39,100)
Profit before tax		146,518	125,802	146,173	126,241
Income tax expense	8	43,497	37,658	43,469	37,638
Profit after tax		103,021	88,144	102,704	88,603
Attributable to equity holders of the company		102,865	88,375	102,704	88,603
Non-controlling interest		156	(231)	–	–
		103,021	88,144	102,704	88,603
EARNINGS PER SHARE					
Basic and diluted earnings per share (cents)	9	26.43	22.71		

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED
30 JUNE 2010

		GROUP		COMPANY	
IN NZD 000	NOTES	30 JUN 10	30 JUN 09	30 JUN 10	30 JUN 09
Profit for the year		103,021	88,144	102,704	88,603
Other comprehensive income					
Cash flow hedges, net of tax	22	(4,119)	(8,797)	(4,119)	(8,797)
Other comprehensive income for the year net of income tax		(4,119)	(8,797)	(4,119)	(8,797)
Total comprehensive income for the year		98,902	79,347	98,585	79,806
Attributable to:					
Equity holders of the company		98,746	79,578	98,585	79,806
Non-controlling interest		156	(231)	–	–
		98,902	79,347	98,585	79,806

BALANCE SHEET

AS AT 30 JUNE 2010

		GROUP		COMPANY	
IN NZD 000	NOTES	30 JUN 10	30 JUN 09	30 JUN 10	30 JUN 09
CURRENT ASSETS					
Cash and cash equivalents		25,565	14,555	25,162	13,982
Trade and other receivables	10	69,808	64,418	69,509	64,626
Programme rights inventory	11	40,606	35,281	40,606	35,281
Derivative financial instruments	19	4,542	11,550	4,542	11,550
		140,521	125,804	139,819	125,439
NON-CURRENT ASSETS					
Property, plant and equipment	12	313,224	291,025	312,311	290,210
Other intangible assets	13	28,900	24,640	28,740	24,335
Shares in subsidiary companies	14	–	–	4,007	4,007
Goodwill	15	1,423,427	1,423,427	1,422,465	1,422,465
Derivative financial instruments	19	3,089	7,901	3,089	7,901
		1,768,640	1,746,993	1,770,612	1,748,918
Total assets		1,909,161	1,872,797	1,910,431	1,874,357
CURRENT LIABILITIES					
Trade and other payables	17	128,281	120,409	127,635	119,730
Income tax payable		4,148	1,341	4,134	1,333
Derivative financial instruments	19	8,036	10,712	8,036	10,712
		140,465	132,462	139,805	131,775
NON-CURRENT LIABILITIES					
Borrowings	18	274,000	302,732	274,000	302,732
Bonds	18	198,117	197,818	198,117	197,818
Deferred tax	16	31,916	16,753	31,916	16,753
Derivative financial instruments	19	13,117	15,780	13,117	15,780
Provisions	20	599	727	599	727
		517,749	533,810	517,749	533,810
Total liabilities		658,214	666,272	657,554	665,585
EQUITY					
Share capital	21	577,403	577,403	577,403	577,403
Hedging reserve	22	(6,680)	(2,561)	(6,680)	(2,561)
Retained earnings	23	679,657	631,272	682,154	633,930
Total equity attributable to equity holders of the Company		1,250,380	1,206,114	1,252,877	1,208,772
Non-controlling interest		567	411	–	–
Total equity		1,250,947	1,206,525	1,252,877	1,208,772
Total equity and liabilities		1,909,161	1,872,797	1,910,431	1,874,357

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED
30 JUNE 2010

		ATTRIBUTABLE TO OWNERS OF THE PARENT					
IN NZD 000	NOTES	SHARE CAPITAL	HEDGING RESERVE	RETAINED EARNINGS	TOTAL	NON-CONTROLLING INTEREST	TOTAL EQUITY
GROUP							
Balance at 1 July 2009		577,403	(2,561)	631,272	1,206,114	411	**1,206,525**
Profit for the year		–	–	102,865	102,865	156	**103,021**
Cash flow hedges, net of tax	22	–	(4,119)	–	(4,119)	–	**(4,119)**
Total comprehensive income for the year		–	(4,119)	102,865	98,746	156	**98,902**
Dividend paid	21	–	–	(54,480)	(54,480)	–	**(54,480)**
Supplementary dividends		–	–	(3,865)	(3,865)	–	**(3,865)**
Foreign investor tax credits		–	–	3,865	3,865	–	**3,865**
Balance at 30 June 2010		577,403	(6,680)	679,657	1,250,380	567	**1,250,947**
Balance at 1 July 2008		577,403	6,236	597,377	1,181,016	642	**1,181,658**
Profit/(loss) for the year		–	–	88,375	88,375	(231)	**88,144**
Cash flow hedges, net of tax	22	–	(8,797)	–	(8,797)	–	**(8,797)**
Total comprehensive income for the year		–	(8,797)	88,375	79,578	(231)	**79,347**
Dividend paid	21	–	–	(54,480)	(54,480)	–	**(54,480)**
Supplementary dividends		–	–	(5,806)	(5,806)	–	**(5,806)**
Foreign investor tax credits		–	–	5,806	5,806	–	**5,806**
Balance at 30 June 2009		577,403	(2,561)	631,272	1,206,114	411	**1,206,525**
COMPANY							
Balance at 1 July 2009		577,403	(2,561)	633,930	1,208,772	–	**1,208,772**
Profit for the year		–	–	102,704	102,704	–	**102,704**
Cash flow hedges, net of tax	22	–	(4,119)	–	(4,119)	–	**(4,119)**
Total comprehensive income for the year		–	(4,119)	102,704	98,585	–	**98,585**
Dividend paid	21	–	–	(54,480)	(54,480)	–	**(54,480)**
Supplementary dividends		–	–	(3,865)	(3,865)	–	**(3,865)**
Foreign investor tax credits		–	–	3,865	3,865	–	**3,865**
Balance at 30 June 2010		577,403	(6,680)	682,154	1,252,877	–	**1,252,877**
Balance at 1 July 2008		577,403	6,236	599,807	1,183,446	–	**1,183,446**
Profit for the year		–	–	88,603	88,603	–	**88,603**
Cash flow hedges, net of tax	22	–	(8,797)	–	(8,797)	–	**(8,797)**
Total comprehensive income for the year		–	(8,797)	88,603	79,806	–	**79,806**
Dividend paid	21	–	–	(54,480)	(54,480)	–	**(54,480)**
Supplementary dividends		–	–	(5,806)	(5,806)	–	**(5,806)**
Foreign investor tax credits		–	–	5,806	5,806	–	**5,806**
Balance at 30 June 2009		577,403	(2,561)	633,930	1,208,772	–	**1,208,772**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2010

		GROUP		COMPANY	
IN NZD 000	NOTES	30 JUN 10	30 JUN 09	30 JUN 10	30 JUN 09
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from:					
Customers		737,102	687,175	732,223	682,772
Interest received		439	967	429	950
		737,541	688,142	732,652	683,722
Cash was applied to:					
Suppliers and employees		(390,662)	(374,863)	(386,609)	(371,568)
Related parties		(56,665)	(55,488)	(56,665)	(55,488)
Interest paid		(32,786)	(39,769)	(32,785)	(39,769)
Income tax paid	8	(20,020)	(14,268)	(20,000)	(14,262)
		(500,133)	(484,388)	(496,059)	(481,087)
NET CASH FROM OPERATING ACTIVITIES		237,408	203,754	236,593	202,635
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		73	36	73	36
Acquisition of property, plant, equipment and intangibles		(139,101)	(144,933)	(138,116)	(144,048)
Acquisition of business	27	–	(808)	–	(808)
NET CASH USED IN INVESTING ACTIVITIES		(139,028)	(145,705)	(138,043)	(144,820)
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of borrowings – bank loan		(79,000)	(35,000)	(79,000)	(35,000)
Advances received – bank loan		50,000	33,000	50,000	33,000
Payment of bank facility fees		(25)	(25)	(25)	(25)
Dividends paid		(58,345)	(60,286)	(58,345)	(60,286)
NET CASH USED IN FINANCING ACTIVITIES		(87,370)	(62,311)	(87,370)	(62,311)
Net increase/(decrease) in cash and cash equivalents		11,010	(4,262)	11,180	(4,496)
Cash and cash equivalents at beginning of year		14,555	18,817	13,982	18,478
Cash and cash equivalents at end of year		25,565	14,555	25,162	13,982

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED
30 JUNE 2010

CONTINUED

		GROUP		COMPANY	
IN NZD 000	NOTES	30 JUN 10	30 JUN 09	30 JUN 10	30 JUN 09
RECONCILIATION OF OPERATING CASH FLOWS WITH NET PROFIT					
Profit after tax		103,021	88,144	102,704	88,603
Plus/(less) non-cash items:					
Depreciation and amortisation	6	112,506	96,076	111,475	94,717
Unrealised foreign exchange (gain)/loss	7	(1,445)	2,086	(1,445)	2,086
Bad debts and movement in provision for doubtful debts	6	6,678	5,172	6,680	5,174
Amortisation of bond issue costs	7	299	299	299	299
Movement in deferred tax	8	16,692	16,215	16,692	16,215
Other non-cash items		860	(331)	860	(331)
ITEMS CLASSIFIED AS INVESTING ACTIVITIES:					
(Gain)/loss on disposal of assets		(32)	33	(32)	33
MOVEMENT IN WORKING CAPITAL ITEMS:					
Increase in receivables		(5,966)	(5,483)	(5,567)	(5,410)
Increase/(decrease) in payables		3,337	(3,027)	3,475	(3,337)
Increase in provision for tax		6,783	7,180	6,777	7,196
Increase in programme rights		(5,325)	(2,610)	(5,325)	(2,610)
Net cash from operating activities		237,408	203,754	236,593	202,635

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

1 GENERAL INFORMATION

SKY Network Television Limited is a Company incorporated and domiciled in New Zealand. The address of its registered office is 10 Panorama Road, Mt Wellington, Auckland, New Zealand. The consolidated financial statements of the Group for the year ended 30 June 2010 comprise the Company, SKY Network Television Limited and its subsidiaries. The Company financial statements are for SKY Network Television Limited as a separate legal entity.

SKY is a company registered under the Companies Act 1993 and is an issuer in terms of the Financial Reporting Act 1993. These financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993.

SKY operates as a provider of multi-channel, pay television and free-to-air television services in New Zealand.

These financial statements were authorised for issue by the Board on 19 August 2010.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements are for the year ended 30 June 2010. They have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). Accounting policies applied in these financial statements comply with NZ IFRS and NZ IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (August 2010) as applicable to SKY as a profit-oriented entity. The Group and the Company financial statements are in compliance with International Financial Reporting Standards (IFRS).

The preparation of financial statements in accordance with NZ IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Changes in accounting policy and disclosures

The accounting policies applied by the Group in these consolidated financial statements have been consistently applied to all the years presented other than as set out below.

The Group has adopted the following new and amended NZ IFRSs as of 1 July 2009.

NZ IAS 1 (Revised) Presentation of Financial Statements (effective from 1 January 2009)

The revised standard prohibits the presentation of items of income and expenses (that is non-owner changes in equity) in the statement of changes in equity, requiring non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements: an income statement and a statement of comprehensive income. These financial statements have been prepared under the revised disclosure requirements.

NZ IFRS 8 Operating Segments (effective from 1 January 2009)

The Group has adopted NZ IFRS 8 which requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and assess its performance. In contrast, the predecessor Standard (NZ IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving only as a starting point for the identification of such segments. The Company is internally reported as a single operating segment to the chief operating decision maker and no changes to reportable segments have been made compared to previous segments reported under NZ IAS 14 Segment Reporting. Other companies within the Group, although reported separately are not material either individually or when combined.

NZ IFRS 7 Financial Instruments: Disclosures (amendment) (effective 1 January 2009)

The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value by level of a fair value measurement hierarchy. As the adoption of this standard only results in additional disclosures, there is no impact on earnings per share. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

CONTINUED

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NZ IAS 23 (as revised in 2007) Borrowing Costs (effective 1 January 2009)
The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. The Group previously recognised all borrowing costs as an expense immediately. In accordance with the transitional provisions of the standard, comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share. The Group has capitalised borrowing costs in relation to the upgrade project for the broadcasting studio and various other long-term projects that meet the definition of a qualifying asset (refer notes 12 and 13).

At the date of authorisation of these financial statements, the following Standards and interpretations of relevance to the Group and Company were in issue but not yet effective:

NZ IFRS 9: Financial Instruments (Effective date periods beginning on or after 1 January 2013).

NZ IAS 24: Related party Disclosures (revised 2009) (Effective date periods beginning on or after 1 July 2011).

The following are the Improvements to NZ Equivalents to IFRS (2009): effective 1 January 2010.

NZ IFRS 8: Disclosure of information about segment assets.

NZ IAS 17: Classification of leases of land and buildings.

NZ IAS 36: Unit of accounting for goodwill impairment test.

NZ IAS 39: Cash flow hedge accounting.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company or the Group other than disclosures.

These financial statements have been prepared under the historical cost convention except for the revaluation of certain financial instruments (including derivative instruments).

The following specific accounting policies have a significant effect on the measurement of results and financial position.

Basis of consolidation
The Group financial statements consolidate the financial statements of subsidiaries, using the acquisition method.

The acquisition method of accounting is used to account for the acquisition of subsidiaries and businesses by the Group. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interest issued by the acquirer. It includes any asset or liability arising from a contingent consideration arrangement. Each identifiable asset and liability is generally measured at its acquisition date fair value except if another NZ IFRS requires another measurement basis. The excess of the consideration of the acquisition, less the Group's share of the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed is recognised as goodwill.

Subsidiaries
Subsidiaries are entities that are controlled, either directly or indirectly, by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which control ceases.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains unless the transaction provides evidence of an impairment of the asset transferred.

Transactions with non-controlling interests
The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. A change in the ownership interest of a subsidiary, without a change of control is accounted for as an equity transaction.

Foreign currencies

Functional and presentation currency
The financial statements are presented in New Zealand dollars which is the Company's and its subsidiaries' functional currency.

Foreign currency transactions
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance date are translated to New Zealand dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary items carried at fair value that are denominated in foreign currencies are translated to New Zealand dollars at the

rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except where hedge accounting is applied and foreign exchange gains and losses are deferred in equity.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses except land which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Capitalised aerial and satellite dish installations are represented by the cost of aerials, satellite dishes, installation costs and direct costs. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Costs may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Depreciation

Property, plant and equipment are depreciated using the straight-line method so as to allocate the costs of assets to their residual values over their estimated useful lives as follows:

Land	Nil
Leasehold improvements	5 – 50 years
Buildings	50 years
Studio and broadcasting equipment	5 – 10 years
Decoders and associated equipment	4 – 5 years
Other plant and equipment	3 – 10 years
Capitalised aerial and satellite dish installations	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The SKY business is considered to comprise only a single cash-generating unit.

Other intangible assets

Broadcasting rights

Broadcasting rights, consisting of UHF spectrum licenses are recognised at cost and are amortised on a straight-line basis over the lesser of the period of the licence term and 20 years.

Renewal rights

Renewal rights for programmes are capitalised at cost and amortised on a straight-line basis over the period that any new rights are acquired. If a contract is not expected to be renewed the costs are expensed.

Software

Acquired software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised, on a straight-line basis, over their estimated useful lives (three to five years).

Programme rights inventory

Programme rights are recognised at cost, as an asset in the balance sheet provided the programme is available and the rights period has commenced at the balance date. Long-term sports rights are executory contracts as the obligation to pay for the rights does not arise until the event has been delivered. Most sports rights contracts are, however, payable in advance and as such are recognised only to the extent of the unamortised payment amount. Rights are amortised over the period they relate to on a proportionate basis depending on the type of programme right and the expected screening dates, generally not exceeding twelve months. Any rights not expected to be utilised are written off during the period.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

NOTES TO THE FINANCIAL STATEMENTS

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use.

Leases – finance leases
Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are included as non-current assets in the balance sheet. The present value of the minimum lease payments is recognised as an asset at the beginning of the lease term and depreciated on a straight-line basis over the shorter of the lease term or the expected useful life of the leased asset. A corresponding liability is also established and each lease payment is allocated between the liability and interest expense so as to produce a constant period rate of interest on the remaining balance of the liability.

Leases – operating leases
Leases under which all the risks and benefits of ownership are substantially retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the periods the amounts are payable. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Financial assets
Financial assets are classified in the following categories: at fair value through profit or loss, or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the assets. Regular way purchases or sales of financial assets are sales or purchases that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit and loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are categorised as held for trading unless they are designated as hedges. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are recognised in the income statement.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those assets with maturities greater than 12 months after the balance date when they are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired as well as through the amortisation process.

Impairment
The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account with the amount of the loss being recognised in profit or loss.

Trade and other receivables
Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is expensed in the income statement.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Short term investments
Short term investments comprise call deposits with maturities of three months or more but less than one year.

Borrowings
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings, using the effective interest method. Arrangement fees are amortised over the term of the loan facility.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

Bonds
Bonds are recognised initially at face value less costs of issue. Costs of issue are amortised over the period of the bonds. Subsequent to initial recognition, bonds are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the bonds, using the effective interest method. Bonds are classified in the balance sheet as non-current liabilities unless settlement of the liability is due within twelve months after the balance date.

Trade and other payables
Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks. The Group does not hold or issue derivatives for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivatives consist mainly of currency forwards, and interest rate swaps.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are remeasured at their fair value at subsequent reporting dates. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Cash flow hedges
The Group designates hedges of both firm commitments and highly probable forecast transactions as cash flow hedges. Changes in the fair value of derivatives qualifying as cash flow hedges are recognised in equity. At the time of dedesignation i.e. the period that the hedged item will affect the income statement, amounts accumulated in equity are either released to the income statement or used to adjust the carrying value of assets purchased (basis adjustments). When hedging forecast purchases of programme rights in foreign currency, releases from equity via a basis adjustment occurs when the programme right is recognised on-balance sheet. Any ineffective component of the fair value changes on the hedging instrument is recorded directly in the income statement. The fair value of foreign currency forward contracts is determined by using forward exchange market rates at the balance date.

Amounts accumulated in the hedging reserve in equity on interest rate swaps are recycled in the income statement in the periods when the hedged item affects profit and loss (for example when the forecast interest payment that is hedged is made). The gain or loss relating to any ineffective portion is recognised in the income statement as “interest rate swaps – fair value” in finance costs. The gain or loss relating to interest rate swaps which do not qualify for hedge accounting is recognised in the income statement within the interest expense charge in “finance expense”.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

For qualifying hedge relationships, the Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Fair value hedges
The Group designates hedges of the fair value of recognised assets and liabilities as fair value hedges. These include hedges of borrowings issued at fixed interest rates which expose the Group to fair value interest rate risk. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement and for disclosure purposes.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and assumptions that are based on market conditions existing at each balance date. Techniques, such as estimated discounted cash flows, are used to determine the fair value of financial instruments. The fair value of forward exchange contracts is their quoted market price at the balance date. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The carrying amount of cash and cash equivalents, short term investments, payables and accruals, receivables and current portion of borrowings approximate fair value due to the short-term maturity of these instruments. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market rate that is available to the Group for similar financial instruments.

Employee benefits

Wages and salaries and annual leave

Employee entitlements to salaries and wages and annual leave, to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on remuneration rates that the Group expects to pay.

Long service leave

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using quoted forward interest rates for periods with terms to maturity that match as closely as possible the estimated future cash flows.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either; terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance date are discounted to present value.

Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into account the economic value added by employees during the reporting period. The Group recognises this provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Share-based payment transactions

Share options may be granted to certain employees of the Group. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using recognised valuation methods, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is due to share prices not achieving the threshold for vesting, in which case the expense is not reversed. As at 30 June 2010 and 30 June 2009 the Group has not granted any share options to employees.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Revenue recognition

a) Sales of goods and services
Revenue comprises the fair value of the sales of goods and services, net of goods and services tax and is recognised as follows:

- Subscription revenue – over the period to which the subscription relates;
- Advertising revenue – over the period in which the advertising is screened;
- Installation revenue – when the installation has been completed;
- Other revenue – when the product has been delivered to the customer or in the accounting period in which the actual service is provided.

b) Interest income
Interest income is recognised on a time-proportion basis using the effective interest method, which is the rate that exactly discounts estimated future cash flow receipts through the expected life of the financial asset to that asset's net carrying amount.

Borrowing costs
Borrowing costs directly attributable to acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they are incurred. Borrowing costs consist of interest and other costs that an entity incurs with the borrowing of funds.

Taxation
Current income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

Income tax expense represents the sum of the tax currently payable and deferred tax, except to the extent that it relates to items recognised directly in equity, in which case the tax expense is also recognised in equity.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using the rates that have been enacted or substantively enacted by the balance date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Goods and Services Tax (GST)
The income statement and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

Segmental reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the group of executive directors. SKY's business is carried out solely in New Zealand and provides only one distinguishable service i.e. the delivery of multi-channel television services. Accordingly there are no separate segments. The DVD online business and the free-to-air business of Prime represent less than ten percent of the Group's revenue, profit and net assets and as such are not separately disclosed.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT

Financial risk management objectives

The Group undertakes transactions in a range of financial instruments which include, cash and cash deposits, receivables, payables, derivatives and various forms of borrowings including bonds and bank loans.

These activities result in exposure to financial risks that include market risk (currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of currency and interest rate risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function reports monthly to the Board of Directors. The Board has established an Audit and Risk Management Committee which is responsible for developing and monitoring the Group's risk management policies.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board. Generally the Group seeks to apply hedge accounting in order to manage income statement volatility.

(a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Australian dollar and the United States dollar. Foreign exchange risk arises when purchases are denominated in a currency that is not the entity's functional currency. The net position in each foreign currency is managed by using forward currency contracts and foreign currency options and collars to limit the Group's exposure to currency risk.

The Group's risk management policy is to hedge foreign capital expenditure (Capex) and foreign operating expenditure (Opex) in accordance with the following parameters. Approximately 90% of anticipated transactions in each major currency qualify as 'highly probable' forecast transactions for hedge accounting purposes.

		PERIOD	MINIMUM HEDGING	MAXIMUM HEDGING
Capex	Order greater than NZ $250,000	Time of issuing order	100%	100%
Opex	Fixed commitments	Up to 3 years	100%	100%
		> 3 years	0%	30%
Opex	Variable commitments	0 – 12 months	85%	95%
		13 – 36 months	0%	70%
		> 36 months	0%	30%

A detailed summary of the Group's currency risks and a sensitivity analysis are given in note 19.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Cash flow and fair value interest rate risk
The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain approximately 45% to 90% of its borrowings in fixed rate instruments.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps, options and swaptions. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Occasionally, the Group also enters into fixed-to-floating interest rate swaps to hedge fair value interest rate risk arising where it has borrowed at fixed rates.

A detailed summary of the Group's interest rate risks and a sensitivity analysis are given in note 19.

(c) Price risk
The Group does not have any price risk exposure.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises from cash and cash equivalents, deposits with banks, derivative financial instruments and the Group's receivables from customers.

The Group has no significant concentrations of credit risk. Credit risk with respect to trade receivables is limited due to the large number of subscribers included in the Group's subscriber base. In addition, receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. The maximum exposure is the carrying amount as disclosed in note 10. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors the Group's cash requirements on a daily basis against expected cash flows based on a rolling daily cash flow forecast for at least 90 days in advance. In addition the Group compares actual cash flow reserves against forecast and budget on a monthly basis.

The Group maintains a line of credit of $101,000,000 (June 2009: $72,000,000) that can be drawn down to meet short-term working capital requirements (refer note 18). Contractual maturities of the Group's financial liabilities are shown below.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the balance date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payments in respect of financial liabilities and the net settled interest rate derivatives that are in a loss position at balance date. Balances due within 12 months equal their carrying value as the impact of discounting is not significant.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The information shown below relates to the Group only. Company information is not shown separately since there is no material difference between the Company and the Group.

IN NZD 000	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	LESS THAN ONE YEAR	1–2 YEARS	2–5 YEARS	> 5 YEARS
At 30 June 2010						
Non derivative financial liabilities						
Bank loans (note 18)	274,000	(292,358)	(9,179)	(9,179)	(274,000)	–
Bonds (note 18)	198,117	(250,493)	(8,020)	(8,020)	(24,060)	(210,393)
Trade and other payables (note 17)	76,521	(76,521)	(76,521)	–	–	–
Derivative financial liabilities						
Interest rate swaps (note 19) [1]	16,826	(32,430)	(6,905)	(5,795)	(13,097)	(6,633)
	565,464	(651,802)	(100,625)	(22,994)	(311,157)	(217,026)
At 30 June 2009						
Non derivative financial liabilities						
Bank loans (note 18)	302,732	(334,815)	(10,605)	(10,605)	(313,605)	–
Bonds (note 18)	197,818	(308,125)	(14,820)	(14,820)	(44,460)	(234,025)
Trade and other payables (note 17)	74,734	(74,434)	(74,434)	–	–	–
Derivative financial instruments						
Interest rate swaps (note 19) [1]	17,980	(35,454)	(9,080)	(7,757)	(11,861)	(6,756)
	593,264	(752,828)	(108,939)	(33,182)	(369,926)	(240,781)

Trade and other payables (note 17) includes unearned subscriptions and deferred revenues totalling $51,760,000 (2009: $45,675,000) which are not classified as financial instruments. These balances are excluded from the amounts shown above.

[1] The table excludes the contractual cash flows of the interest rate swaps which are included in assets.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below analyses the Group's foreign exchange derivative financial instruments which will be settled on a gross basis 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. Inflows have been calculated using balance date spot rates.

	EXCHANGE RATE	CONTRACTUAL CASH FLOWS FOREIGN EXCHANGE AMOUNT	CONTRACTUAL CASH FLOWS	LESS THAN ONE YEAR	1–2 YEARS	2–5 YEARS
			NZD 000	NZD 000	NZD 000	NZD 000
At 30 June 2010						
Forward foreign exchange contracts						
Outflow						
USD			(176,086)	(98,530)	(64,924)	(12,632)
AUD			(78,135)	(64,766)	(13,369)	–
JPY			(1,308)	(1,308)	–	–
EUR			(663)	(663)	–	–
Inflow						
USD	0.6943	118,208	170,254	94,227	63,981	12,046
AUD	0.8120	66,258	81,599	68,052	13,547	–
JPY	61.5497	79,674	1,294	1,294	–	–
EUR	0.5675	379	667	667	–	–
			(2,378)	(1,027)	(765)	(586)
At 30 June 2009						
Forward foreign exchange contracts						
Outflow						
USD			(181,843)	(127,556)	(54,287)	–
AUD			(137,295)	(73,501)	(57,825)	(5,969)
JPY			(3,257)	(3,257)	–	–
Inflow						
USD	0.6537	115,850	177,222	122,679	54,543	–
AUD	0.8044	117,470	146,034	78,095	61,723	6,216
JPY	62.3891	184,958	2,965	2,965	–	–
			3,826	(575)	4,154	247

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's overall strategy for capital risk management remains unchanged from 2009.

The capital structure of the Group consists of debt which includes the borrowings disclosed in note 18, cash and cash equivalents and equity attributable to equity holders of the parent comprising share capital, hedging reserve and retained earnings as disclosed in notes 21, 22 and 23 respectively.

The Board reviews the Company's capital structure on a regular basis. The Company has a facility agreement in place with a syndicate of banks and a retail bond issue as described in note 18.

The gearing ratio at the year end was as follows:

	GROUP	
IN NZD 000	**30 JUN 10**	**30 JUN 09**
Debt (note 18)	472,117	500,550
Cash and cash equivalents	(25,565)	(14,555)
Net debt	446,552	485,995
Equity	1,250,947	1,206,525
Net debt to equity ratio	36%	40%

The Group is subject to externally imposed debt limits which it has complied with for the entire year reported (2009: complied).

Fair value estimation

The Group has adopted the amendment to NZ IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs).

SKY's financial assets and liabilities are all fair valued on a Level 2 basis.

	LEVEL 2 GROUP AND COMPANY	
IN NZD 000	**30 JUN 10**	**30 JUN 09**
Assets measured at fair value		
Financial assets at fair value through profit or loss		
Trading derivatives – dedesignated or ineffective hedges	1,445	4,800
Derivatives used for hedging – cash flow hedges	6,186	14,651
Total assets	7,631	19,451
Liabilities measured at fair value		
Financial liabilities at fair value through profit or loss		
Trading derivatives – dedesignated or ineffective hedges	(2,554)	(4,094)
Derivatives used for hedging – cash flow hedges	(18,599)	(22,398)
Total liabilities	(21,153)	(26,492)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Specific valuation techniques used to value financial instruments include:

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

The fair value of forward foreign exchange contracts is based on market forward foreign exchange rates at year end.

Fair value of financial instruments carried at amortised cost

IN NZD 000	GROUP				COMPANY			
	30 JUN 10		30 JUN 09		30 JUN 10		30 JUN 09	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Financial assets								
Loans and receivables								
Cash and cash equivalents	25,565	25,565	14,555	14,555	25,162	25,162	13,982	13,982
Trade and other receivables (note 10)	60,769	60,769	57,058	57,058	60,810	60,810	57,321	57,321
Total assets	86,334	86,334	71,613	71,613	85,972	85,972	71,303	71,303
Financial liabilities held at amortised cost								
Borrowings (note 18)	274,000	254,000	302,732	278,000	274,000	254,000	302,732	278,000
Bond (note 18)	198,117	178,000	197,818	148,000	198,117	178,000	197,818	148,000
Trade and other payables (note 17)	76,521	76,521	74,734	74,734	75,969	75,969	74,143	74,143
Total liabilities	548,638	508,521	575,284	500,734	548,086	507,969	574,693	500,143

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

Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of quoted notes and bonds is based on price quotations at the reporting date. The fair value of loans from banks is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED
30 JUNE 2010

CONTINUED

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Estimated impairment of goodwill
The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts have been determined based on value-in-use calculations. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and use a suitable discount rate in order to calculate present value. The value of goodwill at the balance date was $1,423 million (30 June 2009: $1,423 million). No impairment loss has been recognised. Details of the value-in-use calculation are provided in note 15.

b) Estimated life of technical assets
The estimated life of technical assets such as satellite transponders, decoders and other broadcasting assets is based on management's best estimates. Changes in technology may result in the economic life of these assets being different from previous estimates. The Board and management regularly review economic life assumptions of these assets as part of management reporting procedures (refer note 12 for book value of these assets).

5 SEGMENT REPORTING

The Group operates as a single business segment being a multi-channel provider of pay-per-view and free-to-air television services in New Zealand only.

6 OPERATING EXPENSES

	GROUP		COMPANY	
IN NZD 000	**30 JUN 10**	**30 JUN 09**	**30 JUN 10**	**30 JUN 09**
Depreciation and amortisation				
Depreciation of property, plant and equipment (note 12)	102,091	86,987	101,254	85,904
Amortisation of intangibles (note 13)	10,415	9,089	10,221	8,813
Total depreciation and amortisation	112,506	96,076	111,475	94,717
Bad and doubtful debts				
Movement in provision	1,735	672	1,737	674
Net write-off	4,943	4,500	4,943	4,500
Total bad and doubtful debts (note 10)	6,678	5,172	6,680	5,174
Fees paid to auditors				
Audit fees paid to principal auditors	174	175	167	168
Other assurance services by principal auditors				
IT assurance services	168	81	168	81
Audit of regulatory returns	5	7	5	7
Greenhouse gas inventory review	21	–	21	–
Total fees to auditors	368	263	361	256
Donations	35	21	35	21
Employee costs	67,222	62,675	65,801	61,181
Directors' fees	476	440	476	440
Operating lease and rental expenses	32,986	28,466	32,917	28,407

7 FINANCIAL INCOME/(EXPENSE)

	GROUP		COMPANY	
IN NZD 000	30 JUN 10	30 JUN 09	30 JUN 10	30 JUN 09
Finance income				
Interest income	440	959	431	942
Interest rate swaps – fair value	–	2,303	–	2,303
	440	3,262	431	3,245
Finance expense				
Interest expense on bank loans	(17,622)	(24,254)	(17,622)	(24,254)
Interest expense on bond	(11,162)	(14,827)	(11,162)	(14,827)
Interest rate swaps – fair value	(1,894)	–	(1,894)	–
Amortisation of bond costs	(299)	(299)	(299)	(299)
Bank facility fees	(437)	(441)	(437)	(441)
Total interest expense(net)	(31,414)	(39,821)	(31,414)	(39,821)
Realised exchange gain/(loss)	1,053	(438)	1,053	(438)
Unrealised exchange gain/(loss)	1,445	(2,086)	1,445	(2,086)
	(28,476)	(39,083)	(28,485)	(39,100)

During the year interest of $300,000 (2009: nil) was capitalised to projects (refer notes 12 and 13).

8 INCOME TAX EXPENSE

The total charge for the year can be reconciled to the accounting profit as follows:

	GROUP		COMPANY	
IN NZD 000	30 JUN 10	30 JUN 09	30 JUN 10	30 JUN 09
Profit before tax	146,518	125,802	146,173	126,241
Prima facie tax expense at 30% (2009: 30%)	43,955	37,741	43,852	37,872
Non deductible expenses	156	145	156	144
Prior year adjustment	121	(290)	121	(289)
Adjustment for change to building depreciation rates (note 16)	2,500	–	2,500	–
Change in tax rate (note 16)	(3,158)	–	(3,158)	–
Other	(77)	62	(2)	(89)
Income tax expense	43,497	37,658	43,469	37,638
Allocated between				
Current tax payable	26,805	21,443	26,777	21,423
Deferred tax (note 16)	16,692	16,215	16,692	16,215
Income tax expense	43,497	37,658	43,469	37,638

The current year deferred tax amount includes the effect of the future tax rate change from 30% to 28% of ($3,158,000).

8 INCOME TAXES (CONTINUED)

	GROUP		COMPANY	
IN NZD 000	**30 JUN 10**	**30 JUN 09**	**30 JUN 10**	**30 JUN 09**
Imputation credit account				
Balance at beginning of the year	50,475	58,425	50,449	58,174
Tax payments	20,020	14,268	20,000	14,262
Credits attached to dividends paid	(22,968)	(21,005)	(22,968)	(21,005)
Other	24	(1,213)	24	(982)
Balance at end of year	47,551	50,475	47,505	50,449

Availability of these credits is subject to continuity of ownership requirements.

9 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	GROUP	
IN NZD 000	**30 JUN 10**	**30 JUN 09**
Profit after tax (NZD 000)	102,865	88,375
Weighted average number of ordinary shares on issue (thousands)	389,140	389,140
Basic earnings per share (cents)	26.43	22.71

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES	**NUMBER**	**NUMBER**
Issued ordinary shares at beginning of year	389,139,785	389,139,785
Issued ordinary shares at end of year (note 21)	389,139,785	389,139,785
Weighted average number of ordinary shares	389,139,785	389,139,785

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. SKY has no dilutive potential ordinary shares during the current or prior period.

10 TRADE AND OTHER RECEIVABLES

	GROUP		COMPANY	
IN NZD 000	30 JUN 10	30 JUN 09	30 JUN 10	30 JUN 09
Trade receivables	62,343	56,665	62,223	56,548
Less provision for impairment of receivables	(3,716)	(1,981)	(3,712)	(1,975)
Trade receivables – net	58,627	54,684	58,511	54,573
Receivable from group subsidiaries (note 26)	–	–	367	379
Other receivables	2,142	2,374	1,932	2,369
Prepaid expenses	9,039	7,360	8,699	7,305
Balance at end of year	69,808	64,418	69,509	64,626
Deduct prepaid expenses	(9,039)	(7,360)	(8,699)	(7,305)
Balance financial instruments (note 28)	60,769	57,058	60,810	57,321

The carrying amount of trade and other receivables approximates fair value due to the short-term maturity of these instruments.

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

The information shown below relates to the Group only. Company information is not shown separately since there is no material difference between the Company and the Group.

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	GROUP			
IN NZD 000	GROSS 30 JUN 10	IMPAIRMENT 30 JUN 10	GROSS 30 JUN 09	IMPAIRMENT 30 JUN 09
Residential subscribers	44,850	3,036	41,837	1,620
Commercial subscribers	3,638	43	3,767	34
Advertising	6,508	446	5,035	84
Commercial music	120	4	112	6
Other	7,227	187	5,914	237
	62,343	3,716	56,665	1,981

NOTES TO THE FINANCIAL STATEMENTS

10 TRADE AND OTHER RECEIVABLES (CONTINUED)

As at 30 June, the ageing analysis of trade receivables is as follows:

	30 JUN 10			30 JUN 09		
IN NZD 000	NEITHER PAST DUE NOR IMPAIRED	PAST DUE NOT IMPAIRED	IMPAIRED	NEITHER PAST DUE NOR IMPAIRED	PAST DUE NOT IMPAIRED	IMPAIRED
Not past due	49,044	–	–	44,731	–	–
Past due 0–30 days	–	6,844	50	–	7,216	37
Past due 31–60 days	–	2,048	27	–	2,260	18
Past due 61–90 days	–	573	1,005	–	477	743
Greater than 90 days	–	118	2,634	–	–	1,183
	49,044	9,583	3,716	44,731	9,953	1,981

Accounts receivable relating to advertising sales are individually impaired when it is clear that the debt is unlikely to be recovered. Impairment for all other trade receivables is calculated as a percentage of overdue subscribers in various time buckets based on historic performance of subscriber payments.

Movements in the provision for impairment of receivables were as follows:

	GROUP	
IN NZD 000	30 JUN 10	30 JUN 09
Opening balance	1,981	1,309
Charged during the year (note 6)	6,678	5,172
Utilised during the year	(4,943)	(4,500)
Closing balance	3,716	1,981

The creation and release of the provision for impaired receivables has been included in subscriber management expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of receiving additional cash. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable. The Group does not hold any collateral as security.

11 PROGRAMME RIGHTS INVENTORY

	GROUP AND COMPANY	
IN NZD 000	30 JUN 10	30 JUN 09
Cost	86,890	85,558
Less amortisation	(46,284)	(50,277)
Balance at end of year	40,606	35,281

12 PROPERTY, PLANT AND EQUIPMENT

IN NZD 000	LAND, BUILDINGS & LEASEHOLD IMPROVEMENTS	BROADCASTING & STUDIO EQUIPMENT	DECODERS & ASSOCIATED EQUIPMENT	CAPITALISED INSTALLATION COSTS	OTHER PLANT & EQUIPMENT	TOTAL
GROUP						
Cost						
Balance 1 July 2009	39,322	119,150	420,843	350,508	26,107	**955,930**
Additions	5,625	13,742	40,298	60,991	3,662	**124,318**
Disposals	(10)	(3,179)	(21,720)	(4,991)	(341)	**(30,241)**
Balance at 30 June 2010	44,937	129,713	439,421	406,508	29,428	**1,050,007**
Accumulated depreciation						
Balance 1 July 2009	6,861	65,951	323,173	249,578	19,342	**664,905**
Depreciation for the year	1,816	16,569	38,341	41,826	3,539	**102,091**
Disposals	(3)	(3,178)	(21,708)	(4,991)	(333)	**(30,213)**
Balance at 30 June 2010	8,674	79,342	339,806	286,413	22,548	**736,783**
Net book value 30 June 2010	36,263	50,371	99,615	120,095	6,880	**313,224**
Cost						
Balance 1 July 2008	38,619	129,005	372,718	440,481	22,523	**1,003,346**
Additions	1,477	8,459	63,180	46,274	3,833	**123,223**
Disposals	(774)	(18,314)	(15,055)	(136,247)	(249)	**(170,639)**
Balance at 30 June 2009	39,322	119,150	420,843	350,508	26,107	**955,930**
Accumulated depreciation						
Balance 1 July 2008	5,544	68,310	309,667	348,731	16,218	**748,470**
Depreciation for the year	2,079	15,940	28,525	37,094	3,349	**86,987**
Disposals	(762)	(18,299)	(15,019)	(136,247)	(225)	**(170,552)**
Balance at 30 June 2009	6,861	65,951	323,173	249,578	19,342	**664,905**
Net book value 30 June 2009	32,461	53,199	97,670	100,930	6,765	**291,025**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

CONTINUED

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

IN NZD 000	LAND, BUILDINGS & LEASEHOLD IMPROVEMENTS	BROADCASTING & STUDIO EQUIPMENT	DECODERS & ASSOCIATED EQUIPMENT	CAPITALISED INSTALLATION COSTS	OTHER PLANT & EQUIPMENT	TOTAL
COMPANY						
Cost						
Balance 1 July 2009	39,322	119,130	420,843	350,508	23,567	**953,370**
Additions	5,625	13,742	40,298	60,991	2,727	**123,384**
Disposals	(10)	(3,179)	(21,720)	(4,991)	(246)	**(30,146)**
Balance at 30 June 2010	44,937	129,693	439,421	406,508	26,048	**1,046,608**
Accumulated depreciation						
Balance 1 July 2009	6,861	65,938	323,173	249,578	17,610	**663,160**
Depreciation for the year	1,816	16,570	38,341	41,826	2,700	**101,254**
Disposals	(3)	(3,178)	(21,708)	(4,991)	(237)	**(30,117)**
Balance at 30 June 2010	8,674	79,330	339,806	286,413	20,073	**734,297**
Net book value 30 June 2010	36,263	50,363	99,615	120,095	5,975	**312,311**
Cost						
Balance 1 July 2008	38,619	128,985	372,718	440,481	20,855	**1,001,658**
Additions	1,477	8,459	63,180	46,274	2,957	**122,347**
Disposals	(774)	(18,314)	(15,055)	(136,247)	(245)	**(170,635)**
Balance at 30 June 2009	39,322	119,130	420,843	350,508	23,567	**953,370**
Accumulated depreciation						
Balance 1 July 2008	5,544	68,297	309,667	348,731	15,569	**747,808**
Depreciation for the year	2,079	15,940	28,525	37,094	2,266	**85,904**
Disposals	(762)	(18,299)	(15,019)	(136,247)	(225)	**(170,552)**
Balance at 30 June 2009	6,861	65,938	323,173	249,578	17,610	**663,160**
Net book value 30 June 2009	32,461	53,192	97,670	100,930	5,957	**290,210**

During the year the Group acquired the land and buildings situated at 34 Leonard Road for a cost of $3,135,000.

Land, buildings and leasehold improvements at 30 June 2010 includes land with a cost of $ 4,986,000 (30 June 2009: $2,626,000).

The Group has completed the upgrade of its broadcasting operations. The total value of work in progress at 30 June 2010 was $333,000 (2009: $1,800,000).

Additions in the current year to broadcasting and studio equipment includes $200,000 of interest capitalised at an average borrowing rate of 6.45%.

13 OTHER INTANGIBLE ASSETS

IN NZD 000	SOFTWARE	BROADCASTING RIGHTS	RENEWAL RIGHTS	OTHER INTANGIBLES	TOTAL
GROUP					
Cost					
Balance 1 July 2009	34,728	2,309	37,088	3,168	77,293
Additions	9,241	5,435	–	–	14,676
Disposals	(230)	(2,297)	–	–	(2,527)
Balance at 30 June 2010	43,739	5,447	37,088	3,168	89,442
Accumulated amortisation					
Balance 1 July 2009	19,959	2,209	28,641	1,844	52,653
Amortisation for the year	4,952	224	4,767	472	10,415
Disposals	(230)	(2,296)	–	–	(2,526)
Balance at 30 June 2010	24,681	137	33,408	2,316	60,542
Net book value 30 June 2010	19,058	5,310	3,680	852	28,900
Cost					
Balance 1 July 2008	25,773	2,309	37,088	3,168	68,338
Additions	8,955	–	–	–	8,955
Balance at 30 June 2009	34,728	2,309	37,088	3,168	77,293
Accumulated amortisation					
Balance 1 July 2008	16,611	2,090	23,574	1,289	43,564
Amortisation for the year	3,348	119	5,067	555	9,089
Balance at 30 June 2009	19,959	2,209	28,641	1,844	52,653
Net book value 30 June 2009	14,769	100	8,447	1,324	24,640

13 OTHER INTANGIBLE ASSETS (CONTINUED)

IN NZD 000	SOFTWARE	BROADCASTING RIGHTS	RENEWAL RIGHTS	OTHER INTANGIBLES	TOTAL
COMPANY					
Cost					
Balance 1 July 2009	34,418	2,309	37,088	2,536	**76,351**
Additions	9,192	5,435	–	–	**14,627**
Disposals	(230)	(2,297)	–	–	**(2,527)**
Balance at 30 June 2010	43,380	5,447	37,088	2,536	**88,451**
Accumulated amortisation					
Balance 1 July 2009	19,768	2,209	28,641	1,398	**52,016**
Amortisation for the year	4,854	224	4,767	376	**10,221**
Disposals	(230)	(2,296)	–	–	**(2,526)**
Balance at 30 June 2010	24,392	137	33,408	1,774	**59,711**
Net book value 30 June 2010	18,988	5,310	3,680	762	**28,740**
Cost					
Balance 1 July 2008	25,471	2,309	37,088	2,536	**67,404**
Additions	8,947	–	–	–	**8,947**
Balance at 30 June 2009	34,418	2,309	37,088	2,536	**76,351**
Accumulated amortisation					
Balance 1 July 2008	16,600	2,090	23,574	939	**43,203**
Amortisation for the year	3,168	119	5,067	459	**8,813**
Balance at 30 June 2009	19,768	2,209	28,641	1,398	**52,016**
Net book value 30 June 2009	14,650	100	8,447	1,138	**24,335**

There are no internally generated assets included within intangibles.

Additions in the current year to software includes $100,000 of interest capitalised at an average borrowing rate of 6.45%.

14 SHARES IN SUBSIDIARY COMPANIES

The Company's investment in its subsidiaries comprises shares at cost less any provision for impairment. All subsidiaries have a balance date of 30 June.

NAME OF ENTITY	PRINCIPAL ACTIVITY	PARENT	INTEREST HELD	
			2010	2009
SKY DMX Music Limited	Commercial Music	SKY	50.50%	50.50%
Cricket Max Limited	Non-trading	SKY	100.00%	100.00%
Media Finance Limited	Non-trading	SKY	100.00%	100.00%
Outside Broadcasting Limited (previously SKY Telecommunications (MR7) Limited) (refer note 29)	Broadcasting services	SKY	100.00%	100.00%
Screen Enterprises Limited	On-line DVD rental	SKY	51.00%	51.00%

	COMPANY	
IN NZD 000	30 JUN 10	30 JUN 09
Cost of investments		
SKY DMX Music Limited	5	5
Screen Enterprises Limited	4,002	4,002
	4,007	4,007

In July 2010, the Group via its subsidiary Outside Broadcasting Limited (previously SKY Telecommunications (MR7) Limited) acquired certain assets and liabilities of On Site Broadcasting (NZ) Limited and OSB (NZ) Equipment Limited (refer note 29).

On 10 October 2008 the Group acquired The Arts Channel. Details of this transaction are disclosed in note 27.

NOTES TO THE FINANCIAL STATEMENTS

15 GOODWILL

	GROUP		COMPANY	
IN NZD 000	**30 JUN 10**	**30 JUN 09**	**30 JUN 10**	**30 JUN 09**
Balance at beginning of year	**1,423,427**	1,423,077	**1,422,465**	1,422,115
Acquisition of “The Arts Channel” (note 27)	**–**	350	**–**	350
Balance at end of year	**1,423,427**	1,423,427	**1,422,465**	1,422,465
Goodwill has arisen on the following acquisitions:				
Merger of SKY and INL	**1,405,169**	1,405,169	**1,405,169**	1,405,169
Acquisition of Prime	**16,946**	16,946	**16,946**	16,946
Acquisition of The Arts Channel	**350**	350	**350**	350
Acquisition of Screen Enterprises	**962**	962	**–**	–
	1,423,427	1,423,427	**1,422,465**	1,422,465

The Group tests goodwill annually for impairment, or more frequently, if there are indications that goodwill might be impaired. The Group operates as a single business segment and accordingly impairment is tested by comparing the total carrying value of SKY’s goodwill to the recoverable amount. If the carrying value exceeds the recoverable amount, goodwill is considered to be impaired. The recoverable amount has been measured based on the value-in-use, based on the discounted cash flow model. The key assumptions for the value-in-use calculation are those regarding the discount rates, subscription numbers, expected churn percentages, changes in foreign exchange rates and any expected changes to subscriptions or direct costs during the period. Management estimates discount rates using rates that reflect current market assessments of the time value of money and the risks specific to the business. Growth rates are based on expected forecasts and changes in prices and direct costs based on past practice and expectations of future changes in the market. The impairment tests carried out have resulted in no impairment charge for the year (2009: nil).

The Group also compares its estimated recoverable amount with the market capitalisation value at the balance date.

The Group prepares cash flow forecasts derived from the most recent financial budgets and forecasts approved by management for the next five years and incorporates a present value calculation. Cash flows beyond the 5 year period are extrapolated with a 1% growth rate.

KEY ASSUMPTIONS USED FOR VALUE-IN-USE CALCULATION	**30 JUN 10**	**30 JUN 09**
Customer churn rates	**12.5%–11.2%**	12.9%–11.4%
Net gain in customer numbers (excl. churn)	**30,100**	40,100
Pre tax discount rate	**12.2%**	13.3%
USD FX rate	**0.68–0.63**	0.50-0.60
Long term growth rate	**1.00%**	1.00%

Sensitivity of recoverable amounts

The assessment of value-in-use is most sensitive to the assumptions made for the net gain in customer numbers and the USD/NZD exchange rate. Based on the sensitivity analysis carried out, management believe that no reasonable change in any of the key assumptions would result in an impairment in the carrying amount of goodwill.

16 DEFERRED TAX

The following are the major deferred tax liabilities and assets and the movements thereon during the current and prior reporting periods.

IN NZD 000	FIXED ASSETS	OPTUS LEASE	OTHER	HEDGES THROUGH EQUITY	TOTAL
GROUP AND COMPANY					
For the year ended 30 June 2010					
At 1 July 2009	(11,211)	(12,540)	5,901	1,097	**(16,753)**
NZ IAS 39 hedging adjustment credited direct to equity (note 22)	–	–	–	1,694	**1,694**
Effect of tax rate change from 30% to 28% charged direct to equity (note 22)	–	–	–	(165)	**(165)**
Credited/(charged) to income statement [1]	(11,301)	(4,378)	(1,671)	–	**(17,350)**
Adjustment for change to building depreciation rates (note 8) [1]	(2,500)	–	–	–	**(2,500)**
Effect of tax rate change from 30% to 28% (note 8) [1]	2,297	862	(1)	–	**3,158**
Balance at 30 June 2010	(22,715)	(16,056)	4,229	2,626	**(31,916)**
Deferred tax reversing within 12 months	9,359	(4,378)	4,703	312	**9,996**
Deferred tax to be recovered after more than 12 months	(32,074)	(11,678)	(474)	2,314	**(41,912)**
	(22,715)	(16,056)	4,229	2,626	**(31,916)**
For the year ended 30 June 2009					
At 1 July 2008	3,229	(7,842)	2,978	(2,673)	**(4,308)**
NZ IAS 39 hedging adjustment credited direct to equity (note 22)	–	–	–	3,770	**3,770**
Credited/(charged) to income statement (note 8)	(14,440)	(4,698)	2,923	–	**(16,215)**
Balance at 30 June 2009	(11,211)	(12,540)	5,901	1,097	**(16,753)**
Deferred tax reversing within 12 months	(6,601)	(4,388)	6,103	(245)	**(5,131)**
Deferred tax to be recovered after more than 12 months	(4,610)	(8,152)	(202)	1,342	**(11,622)**
	(11,211)	(12,540)	5,901	1,097	**(16,753)**

[1] The net charge to the income statment in the current year is $16,692,000 (refer note 8).

Certain deferred tax assets and liabilities have been offset as allowed under NZ IAS 12 where there is a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred tax assets and liabilities are levied by the same taxation authority.

During the year as a result of the change in the New Zealand corporate tax rate from 30% to 28% that was enacted on 27 May 2010 and that will be effective from 1 July 2011, the relevant deferred tax balances have been re-measured. Deferred tax expected to reverse in the year to 30 June 2012 or later has been measured using the effective rate that will apply for the period (28%).

Buildings are currently depreciated for tax purposes. As a result of the change in tax legislation that was enacted on 27 May 2010, with effect from 1 July 2011 being the beginning of the 2011/2012 income year, the tax depreciation rate on buildings with an estimated useful life of 50 years or more will be reduced to 0%. This reduction in the tax depreciation rate has significantly reduced the tax base of the Group's properties as future tax deductions will no longer be available from the 2011/2012 income year. This has resulted in an increase to the deferred tax liability in relation to properties by $2,500,000 which has been recognised in the tax expense in the current year (refer note 8).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

CONTINUED

17 TRADE AND OTHER PAYABLES

	GROUP		COMPANY	
IN NZD 000	30 JUN 10	30 JUN 09	30 JUN 10	30 JUN 09
Trade payables	45,758	45,010	45,345	44,826
Due to related parties (note 26)	4,757	3,991	4,757	3,864
Unearned subscriptions	51,612	45,466	51,518	45,378
Employee entitlements	8,236	7,192	8,132	7,140
Deferred revenue	148	209	148	209
Accruals	17,770	18,541	17,735	18,313
Balance at end of year	128,281	120,409	127,635	119,730
Less				
Deferred revenue	(148)	(209)	(148)	(209)
Unearned subscriptions	(51,612)	(45,466)	(51,518)	(45,378)
Balance financial instruments (note 28)	76,521	74,734	75,969	74,143

The carrying amount of trade and other payables approximates their fair value due to the short-term maturity of these instruments.

18 BORROWINGS

	GROUP AND COMPANY	
IN NZD 000	30 JUN 10	30 JUN 09
Bank loans		
Non-current	274,000	302,732
Bonds		
Non-current	198,117	197,818

$200,000,000 bonds at $1.00 at amortised cost including transaction costs

Total non-current	472,117	500,550
Total borrowings	472,117	500,550

	30 JUN 10		30 JUN 09	
	BANK LOANS	BONDS	BANK LOANS	BONDS
Repayment terms				
Less than one year	–	–	–	–
Between one and five years	274,000	–	302,732	–
More than five years	–	198,117	–	197,818
	274,000	198,117	302,732	197,818

18 BORROWINGS (CONTINUED)

Bank loans

In June 2005, SKY arranged an NZD 610 million negative pledge five year revolving credit bank facility and an AUD 40 million letter of credit facility from a syndicate of banks comprising ANZ National Bank Limited, Bank of New Zealand, Commonwealth Bank of Australia and The Toronto-Dominion Bank. The facility has been reduced to $375 million and drawn to $274 million at 30 June 2010 (June 2009: $303 million). Interest is charged on drawings under the facility at a rate between 0.375% and 0.60% per annum above the average bid rate for the purchase of bank accepted bills of exchange. There is also a commitment fee payable on the undrawn balance of the facility of between 0.175% and 0.30% per annum. There are no required repayment tranches of the facility. The facility can be partially or fully cancelled at SKY's discretion. In June 2007 the bank facility termination date was extended by one year to 1 July 2012.

There are covenants in the bank facility that: (i) limit SKY's ability to dispose of its assets, although certain disposals are permitted, such as the disposal of certain assets in the ordinary course of business; (ii) prohibit SKY from investing, commencing business or acquiring material capital assets outside its core business; (iii) prohibit SKY from materially changing its licensing arrangements; (iv) impose limits on additional external borrowing and (v) limit interest and debt coverage ratios. It is an event for review under the joint facility agreement if The News Corporation owns less than a 27.5% shareholding in SKY.

No security other than a negative pledge over the total Group's assets has been provided.

Fair values

The fair value of the variable rate bank loans at 30 June 2010 was $254.0 million (30 June 2009: $278.0 million). The difference from carrying value at 30 June 2010 and 30 June 2009 reflects the increase in market margins over the past year and the estimated margin if the loan facility were to be renewed at balance date. The difference between the carrying amount and fair value has not been recognised in the financial statements as the bank loans are intended to be held to maturity.

Bonds

On 16 October 2006 the Group issued bonds for a value of $200 million which were fully subscribed.

Terms and conditions of outstanding bonds are as follows:

	GROUP AND COMPANY	
	30 JUN 10	30 JUN 09
Bonds		
Nominal interest rate	4.01%	7.24%
Date of maturity	16 Oct 16	16 Oct 16
In NZD 000		
Carrying amount	198,117	197,818
Face value	200,000	200,000

The bonds are subject to a call option commencing on 16 October 2009 and each subsequent 16 October until 16 October 2015 whereby the Group has the right to redeem or repurchase all or some of the bonds on each anniversary of the issue date. The market yield of the bonds at 30 June 2010 was 6.24% (30 June 2009: 12.23%). The fair value of the bonds at 30 June 2010 was $178 million (30 June 2009 $148 million). The difference between carrying amount and fair value has not been recognised in the financial statements as the bonds are intended to be held until maturity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

CONTINUED

19 DERIVATIVE FINANCIAL INSTRUMENTS

	GROUP AND COMPANY 30 JUN 10			GROUP AND COMPANY 30 JUN 09		
IN NZ 000	ASSETS	LIABILITIES	NOTIONAL AMOUNTS	ASSETS	LIABILITIES	NOTIONAL AMOUNTS
Interest rate hedges and collars – cash flow	398	(15,295)	330,000	1,667	(16,355)	400,000
Interest rate hedges – fair value	369	(1,531)	60,000	3,327	(1,625)	40,000
Total interest rate hedges	767	(16,826)	390,000	4,994	(17,980)	440,000
Forward foreign exchange contracts – cash flow hedges	5,788	(3,304)	213,861	12,984	(6,043)	271,944
Forward foreign exchange contracts – fair value	1,076	(1,023)	42,330	1,473	(2,469)	50,451
Total forward foreign exchange hedges	6,864	(4,327)	256,191	14,457	(8,512)	322,395
	7,631	(21,153)	646,191	19,451	(26,492)	762,395
Analysed as:						
Current	4,542	(8,036)	305,267	11,550	(10,712)	254,315
Non-current	3,089	(13,117)	340,924	7,901	(15,780)	508,080
	7,631	(21,153)	646,191	19,451	(26,492)	762,395

Exchange rates

Foreign exchange rates used at balance date for the New Zealand dollar are:

	30 JUN 10	30 JUN 09
USD	0.6943	0.6537
AUD	0.8120	0.8044
GBP	0.4612	0.3913
EURO	0.5675	–
JPY	61.5497	62.3891

Forward foreign exchange contracts

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 36 months. Gains and losses recognised in the hedging reserve in equity (note 22) on forward exchange contracts as of 30 June 2010 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement. Generally the gain or loss is recognised as a basis price adjustment for the purchase of assets, including programme rights, and is written off in the income statement over the lifetime of the asset (one to five years).

Credit risk – derivative financial instruments

The maximum exposure to credit risk on the derivative financial instruments is the value of the derivative assets' receivable portion of $7,631,000 (2009: $19,451,000).

19 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Exposure to currency risk

The Group's exposure to foreign currency risk that has been covered by forward foreign exchange contracts is as follows:

	30 JUN 10			30 JUN 09		
IN NZ 000	USD	AUD	OTHER	USD	AUD	OTHER
Foreign currency payables	(25,332)	(8,161)	(842)	(19,812)	(7,707)	(1,342)
De-designated forward exchange contracts	24,507	17,429	394	36,403	13,064	984
Net balance sheet exposure	(825)	9,268	(448)	16,591	5,357	(358)
Forward exchange contracts (for forecasted transactions)	151,579	60,705	1,577	145,440	124,231	2,273
Total forward exchange contracts	176,086	78,134	1,971	181,843	137,295	3,257

The Group does not have any material monetary assets denominated in foreign currencies.

Sensitivity analysis

A 10 percent strengthening or weakening of the NZD against the following currencies as at 30 June would have resulted in changes to equity and unrealised gain/losses (before tax) as shown below. Based on historical movements a 10 percent increase or decrease in the NZD is considered to be a reasonable estimate. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the prior year.

	10% RATE INCREASE		10% RATE DECREASE	
IN NZD 000 GAIN/(LOSS)	EQUITY	PROFIT OR LOSS	EQUITY	PROFIT OR LOSS
As at 30 June 2010				
USD	(13,208)	(2,121)	16,200	2,593
AUD	(5,588)	(1,619)	6,830	1,979
JPY/GBP/EURO	(140)	(37)	172	46
	(18,936)	(3,777)	23,202	4,618
As at 30 June 2009				
USD	(13,016)	(3,184)	15,969	3,643
AUD	(11,538)	(1,197)	14,090	1,463
JPY/GBP/EURO	(192)	(79)	235	96
	(24,746)	(4,460)	30,294	5,202

19 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Interest rates

During the year ended 30 June 2010, interest rates on borrowings varied in the range of 3.1% to 7.8% (2009: 3.3% to 9.3%).

The Group's interest rate structure is as follows:

	GROUP 30 JUN 10			GROUP 30 JUN 09		
IN NZ 000	EFFECTIVE INTEREST RATE	CURRENT	NON-CURRENT	EFFECTIVE INTEREST RATE	CURRENT	NON-CURRENT
Assets						
Cash and cash equivalents	2.19%	25,565	–	5.75%	14,555	–
Liabilities						
Bank loans	6.45%	–	(274,000)	7.01%	–	(302,732)
Bonds	5.48%	–	(198,117)	7.41%	–	(197,818)
Derivatives						
Collars		–	50,000		50,000	50,000
Floating to fixed interest rate swaps		140,000	200,000		–	340,000
Fixed to floating interest rate swaps		200,000	–		200,000	–
		365,565	(222,117)		264,555	(110,550)

The Company's interest rate structure and balances are the same as for the Group except for cash and cash equivalent balances which are $25,162,000 (30 June 2009: $13,982,000).

Sensitivity analysis for interest bearing instruments

A change of 100 basis points in interest rates at the reporting date would have (increased)/decreased equity and profit or loss (before tax) by the amounts shown below. Based on historical movements a 100 basis point movement is considered to be a reasonably possible estimate. The analysis is performed on the same basis for the prior year. This analysis assumes that all other variables remain constant.

	100 BP INCREASE		100 BP DECREASE	
IN NZD 000	EQUITY	PROFIT AND LOSS	EQUITY	PROFIT AND LOSS
As at 30 June 2010				
Expense/(income)				
Variable rate instruments – bank loans	–	5,480	–	(5,480)
Interest rate hedges – cash flow	(6,228)	(227)	10,463	(186)
Interest rate hedges – fair value	–	59	–	(56)
	(6,228)	5,312	10,463	(5,722)
As at 30 June 2009				
Expense/(income)				
Variable rate instruments – bank loans	–	2,881	–	(2,881)
Interest rate hedges – cash flow	(8,443)	(979)	8,318	1,086
Interest rate hedges – fair value	–	499	–	(505)
	(8,443)	2,401	8,318	(2,300)

20 PROVISIONS

IN NZD 000	GROUP AND COMPANY 30 JUN 10	30 JUN 09
Opening balance	727	847
Used during the year	(128)	(120)
Balance at end of year	599	727
Analysis of total provisions		
Current	239	246
Non-current	360	481
	599	727

As part of the purchase of Prime Television in 2006, provision was made for programme rights which were considered to be onerous. Some of these rights extended for periods of up to five years. Provisions also include provision for long service leave.

21 SHARE CAPITAL

	GROUP AND COMPANY NUMBER OF SHARES (000)	ORDINARY SHARES (NZD 000)
Shares on issue at 30 June 2010 and 30 June 2009	389,140	577,403

Ordinary shares have no par value.

SKY paid a dividend of 14.0 cents per share (30 June 2009: 14.0 cents).

As at 30 June 2010 and 2009 there were 389,139,785 ordinary shares authorised, issued and fully paid. Ordinary shares rank equally, carry voting rights and participate in distributions.

22 HEDGING RESERVE

IN NZD 000	GROUP AND COMPANY 30 JUN 10	30 JUN 09
Balance at 1 July	(2,561)	6,236
Cash flow hedges		
Unrealised (losses)/gains during the year	(2,114)	6,231
Transfer to basis price adjustment programme rights inventory	(3,016)	(13,308)
Transfer to property, plant and equipment	(2,232)	(2,630)
Transfer to operating expenses	1,714	(2,860)
Deferred tax (note 16)	1,694	3,770
Change in tax rate (note 16)	(165)	–
	(4,119)	(8,797)
Balance at end of year	(6,680)	(2,561)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

CONTINUED

23 RETAINED EARNINGS

	GROUP		COMPANY	
IN NZD 000	30 JUN 10	30 JUN 09	30 JUN 10	30 JUN 09
Opening balance	631,272	597,377	633,930	599,807
Add net profit for the year	102,865	88,375	102,704	88,603
Less dividends paid	(54,480)	(54,480)	(54,480)	(54,480)
Balance at end of year	679,657	631,272	682,154	633,930

24 COMMITMENTS

	GROUP AND COMPANY	
IN NZD 000	30 JUN 10	30 JUN 09
Operating leases:		
Year 1	30,199	32,383
Year 2	31,596	30,007
Year 3	34,004	31,722
Year 4	33,655	34,158
Year 5	33,442	33,880
Later than 5 years	212,249	248,006
	375,145	410,156
Contracts for transmission services:		
Year 1	7,208	12,591
Year 2	4,430	2,684
Year 3	3,734	–
Year 4	3,224	–
Year 5	2,975	–
	21,571	15,275
Contracts for future programmes:		
Year 1	147,144	161,438
Year 2	114,928	136,725
Year 3	56,028	91,627
Year 4	27,178	31,583
Year 5	21,831	3,606
Later than 5 years	10,898	128
	378,007	425,107

24 COMMITMENTS (CONTINUED)

	GROUP AND COMPANY	
IN NZD 000	**30 JUN 10**	**30 JUN 09**
Capital expenditure commitments:		
Property, plant and equipment		
Year 1	9,640	23,750
Intangibles		
Year 1	–	5,445
	9,640	29,195
Other services commitments:		
Year 1	1,741	10,871
Year 2	1,431	10,201
Year 3	1,431	5,672
Year 4	1,263	1,472
Year 5	1,092	1,294
Later than 5 years	1,000	2,099
	7,958	31,609

The Group has entered into a contract with Optus Networks Pty Limited (Optus) to lease six transponders on the D1 satellite which was launched in October 2006 and commissioned in November 2006. The contract is for a period of 15 years from the time of commissioning with monthly payments in Australian Dollars. This contract is accounted for as an operating lease. Non-cancellable operating lease payments, including Optus lease payments, are included in operating leases above.

SKY is currently utilising six transponders, five of which are on a long-term lease and the sixth on a monthly basis. SKY has options to purchase two transponders on the D1 satellite should it require additional capacity in the future. In 2008 SKY negotiated access to one of these additional transponders to enable launch of HD services. The cost of leasing this transponder is included in the commitments schedule.

25 CONTINGENT LIABILITIES

The Group and Company have undrawn letters of credit at 30 June 2010 of $665,000 (30 June 2009:$655,000), relating to Datacom Employer Services for executive and Screen Enterprises Limited payroll liabilities in the current year.

The Group and Company are party to litigation incidental to its business, none of which is expected to be material. No provision has been made in the Group's financial statements in relation to any current litigation and the directors believe that such litigation will not have a significant effect on the Group's financial position, results of operations or cash flows.

26 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

	GROUP		COMPANY	
IN NZD 000	**30 JUN 10**	**30 JUN 09**	**30 JUN 10**	**30 JUN 09**
Transactions included in the income statement:				
Transactions with related parties				
The News Corporation Limited and its affiliates				
– Programme, smartcard and broadcasting equipment	57,558	58,641	57,558	58,641
Transactions with subsidiaries				
SKY DMX Music Limited				
Administration support, accounting services and broadcasting charges	–	–	367	362
Transactions included in the balance sheet:				
Owing to related parties				
Owing to affiliates of The News Corporation Limited and Non-controlling shareholders of Screen Enterprises Limited (note 17)	4,757	3,991	4,757	3,864
Receivable from subsidiaries				
Receivable from subsidiaries (note 10)	–	–	367	379

Related parties include Nationwide News Pty Limited, a principal shareholder which is an affiliate of The News Corporation Limited, and the non-controlling shareholders of subsidiary companies.

There were no loans to directors by the Company or associated parties at balance date (30 June 2009: nil).

No amounts owed by related parties have been written off or provided against during the year (2009: nil).

Short term employee benefits
The gross remuneration of directors and key management personnel during the year was as follows:

	GROUP AND COMPANY	
IN NZD 000	**30 JUN 10**	**30 JUN 09**
Directors' fees	476	440
Remuneration key management personnel	8,375	9,239
	8,851	9,679

Long service leave entitlements for key management personnel are $22,000 (2009: $20,000).

27 BUSINESS COMBINATIONS

The Arts Channel

On 10 October 2008 the Group acquired "The Arts Channel" for a cost of $808,000. The assets and liabilities arising from the acquisition are as follows:

IN NZD 000	FAIR VALUE AND COST
Programme rights	450
Plant and equipment	8
	458
Fair value of consideration paid	
Cash paid	808
Total cost of investment	808
Less fair value of assets acquired	(458)
Goodwill on acquisition (note 16)	350

Goodwill is attributable to synergies arising from programming content and marketing.

The acquired business contributed revenues in the 2010 year of $2,215,000 (2009: $1,475,000 since acquisition). The business has been fully integrated and the net result cannot be separately identified.

28 FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

IN NZ 000	NOTES	OTHER FINANCIAL LIABILITIES	LOANS AND RECEIVABLES	AT FAIR VALUE THROUGH THE PROFIT AND LOSS	DERIVATIVES USED FOR HEDGING	TOTAL
GROUP 30 June 2010						
Assets as per balance sheet						
Cash and cash equivalents		**–**	**25,565**	**–**	**–**	**25,565**
Trade and other receivables	10	**–**	**60,769**	**–**	**–**	**60,769**
Derivative financial instruments	19	**–**	**–**	**1,445**	**6,186**	**7,631**
Liabilities as per balance sheet						
Trade and other payables	17	**(76,521)**	**–**	**–**	**–**	**(76,521)**
Borrowings	18	**(274,000)**	**–**	**–**	**–**	**(274,000)**
Bonds	18	**(198,117)**	**–**	**–**	**–**	**(198,117)**
Derivative financial instruments	19	**–**	**–**	**(2,554)**	**(18,599)**	**(21,153)**
		(548,638)	**86,334**	**(1,109)**	**(12,413)**	**(475,826)**
GROUP 30 June 2009						
Assets as per balance sheet						
Cash and cash equivalents		–	14,555	–	–	14,555
Trade and other receivables	10	–	57,058	–	–	57,058
Derivative financial instruments	19	–	–	4,800	14,651	19,451
Liabilities as per balance sheet						
Trade and other payables	17	(74,734)	–	–	–	(74,734)
Borrowings	18	(302,732)	–	–	–	(302,732)
Bonds	18	(197,818)	–	–	–	(197,818)
Derivative financial instruments	19	–	–	(4,094)	(22,398)	(26,492)
		(575,284)	71,613	706	(7,747)	(510,712)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010

CONTINUED

28 FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

IN NZ 000	NOTES	OTHER FINANCIAL LIABILITIES	LOANS AND RECEIVABLES	AT FAIR VALUE THROUGH THE PROFIT AND LOSS	DERIVATIVES USED FOR HEDGING	TOTAL
COMPANY 30 June 2010						
Assets as per balance sheet						
Cash and cash equivalents		–	25,162	–	–	25,162
Trade and other receivables	10	–	60,810	–	–	60,810
Derivative financial instruments	19	–	–	1,445	6,186	7,631
Liabilities as per balance sheet						
Trade and other payables	17	(75,969)	–	–	–	(75,969)
Borrowings	18	(274,000)	–	–	–	(274,000)
Bonds	18	(198,117)	–	–	–	(198,117)
Derivative financial instruments	19	–	–	(2,554)	(18,599)	(21,153)
		(548,086)	85,972	(1,109)	(12,413)	(475,636)
COMPANY 30 June 2009						
Assets as per balance sheet						
Cash and cash equivalents		–	13,982	–	–	13,982
Trade and other receivables	10	–	57,321	–	–	57,321
Derivative financial instruments	19	–	–	4,800	14,651	19,451
Liabilities as per balance sheet						
Trade and other payables	17	(74,143)	–	–	–	(74,143)
Borrowings	18	(302,732)	–	–	–	(302,732)
Bonds	18	(197,818)	–	–	–	(197,818)
Derivative financial instruments	19	–	–	(4,094)	(22,398)	(26,492)
		(574,693)	71,303	706	(7,747)	(510,431)

29 SUBSEQUENT EVENTS

On 9 July 2010 the Group through its subsidiary Outside Broadcasting Limited (previously SKY Telecommunications (MR7) Limited acquired certain assets and liabilities of On Site Broadcasting (NZ) Limited and OSB (NZ) Equipment Limited from Australian media company, Prime Media Group for a cost of $13,426,000.

The assets and liabilities arising from the acquisition, provisionally determined, are as follows:

IN NZ 000	FAIR VALUE	ACQUIREE'S CARRYING AMOUNT
Plant and equipment	34,700	36,407
Lease liabilities	(21,200)	(21,206)
Provision for holiday pay and long service leave	(74)	(74)
Net assets acquired	**13,426**	**15,127**

In addition Outside Broadcasting Limited and SKY Network Television Limited entered into a joint venture agreement with Prime Television New Zealand Limited, a subsidiary of Prime Media Group, to market OSB New Zealand's services to third party broadcasters and other customers.

AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2010

PRICEWATERHOUSECOOPERS

To the shareholders of SKY Network Television Limited

We have audited the financial statements on pages 35 to 76. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2010 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 41 to 47.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

DIRECTORS' RESPONSIBILITIES

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2010 and their financial performance and cash flows for the year ended on that date.

AUDITORS' RESPONSIBILITIES

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

BASIS OF OPINION

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
(b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We carried out other assignments on behalf of the Company and Group in the area of assurance services. In addition, certain partners and employees of our firm may have dealt with the Company and Group on normal terms within the ordinary course of trading activities of the Company and Group. We had no other relationships with or interests in the Company and Group.

UNQUALIFIED OPINION

We have obtained all the information and explanations we have required.

In our opinion:

(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
(b) the financial statements on pages 35 to 76:
    (i) comply with generally accepted accounting practice in New Zealand;
    (ii) comply with International Financial Reporting Standards; and
    (iii) give a true and fair view of the financial position of the Company and Group as at 30 June 2010 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 19 August 2010 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants
Auckland

OTHER INFORMATION

080 CORPORATE GOVERNANCE STATEMENT

083 INTERESTS' REGISTER

085 COMPANY AND BONDHOLDER INFORMATION

089 WAIVERS AND INFORMATION

091 SHARE MARKET AND OTHER INFORMATION

094 DIRECTORY

CORPORATE GOVERNANCE STATEMENT

BOARD OF DIRECTORS

Membership

SKY's board is elected or appointed by the shareholders of SKY by ordinary resolution. As at 30 June 2010, the board consisted of seven directors whose relevant skills, experience and expertise are outlined in their biographies on pages 28 and 29. SKY's constitution provides for a minimum of three directors and a maximum of ten directors. The actual number of directors may be changed by resolution of the board. The board may appoint directors to fill casual vacancies that occur or add persons to the board up to the maximum number prescribed by the constitution. At each annual meeting all directors appointed by the board must retire and one third of the other directors must retire, although they can offer themselves for re-election during the year. Directors' fees have been set at a maximum amount of $500,000 per annum.

Role of the Board

The board of directors oversees SKY's business and is responsible for its corporate governance. The board sets broad corporate policies, sets the strategic direction, and oversees management with the objective of enhancing the interests of shareholders. Management is responsible for the implementation of corporate policies and the day-to-day running of SKY's business including risk management and controls and liaising with the board about these matters.

Various information reports are sent to the board in order to keep them informed about SKY's business including reports during the year ended 30 June 2010 on the effectiveness of the management of material legal and business risks. Directors also receive operating and financial reports, and access to senior management at board and committee meetings.

Independent and Executive Directors

At 30 June 2010 the independent directors on SKY's board were John Hart, Humphry Rolleston and John Waller. The other directors are not considered to be independent. John Waller was a partner of PricewaterhouseCoopers until December 2008; the board considers that he is an independent director because he ceased being a partner in PWC before he was appointed to SKY's board. John Fellet is the only executive director on the board.

SKY has not adopted any quantitative materiality thresholds because it was considered more appropriate to determine independence on a case-by-case basis.

Term of Office

John Waller was appointed to SKY's board on 23 April 2009. Humphry Rolleston was appointed to SKY's board on 8 September 2005. Each of the other directors was appointed to SKY's board on 2 May 2005.

The term of each director's association with SKY is indicated in their biographies set out on pages 28 and 29.

Meetings

The board has regularly scheduled meetings and also meets when a matter of particular significance arises. During the year between 1 July 2009 and 30 June 2010 the board met seven times. Attendance at full board meetings was as follows:

	MEETINGS HELD WHILE A DIRECTOR	ATTENDANCE
Peter Macourt	7	7
Robert Bryden	7	7
John Fellet	7	7
John Hart	7	7
Michael Miller	7	7
Humphry Rolleston	7	7
John Waller	7	7

BOARD COMMITTEES

The board has established the following committees to act for, and/or make recommendations to, the full board on certain matters as described below.

Audit and Risk Committee

The audit and risk committee is responsible for overseeing the financial and accounting activities of SKY including the activities of SKY's auditors, accounting functions, internal audit programmes, financial reporting processes and dividend policies. The committee operates under a formal charter and, in addition to its audit functions, is also responsible for establishing and evaluating risk management policies and procedures for risk assessment. The current members are Robert Bryden, John Hart, John Waller and Humphry Rolleston.

Nomination and Remuneration Committee

The nomination and remuneration committee is responsible for providing recommendations regarding the appointment, compensation levels and evaluation of SKY's directors, chief executive officer and senior executives and overseeing SKY's general human resources policies, including remuneration. The current members are John Hart, Peter Macourt and Robert Bryden.

Related Parties Committee

The related parties committee reviews significant proposed transactions between SKY and its related parties. Where the committee is satisfied that a proposed transaction is in SKY's best interests and on arm's length terms and/or in the ordinary course of SKY's business, it may either approve the transaction or recommend to the board that the transaction be approved. The current members are John Hart and Humphry Rolleston.

Committee Meetings
During the year ended 30 June 2010:

(a) the audit and risk committee met three times and all members were present other than John Hart who was absent for two meetings; and
(b) the nomination and remuneration committee met two times and all members were present; and
(c) the related parties committee had no meetings.

POLICIES AND PROCEDURES

SKY has a number of policies and procedures that establish guidelines and practices to be followed in certain circumstances or in relation to certain matters. These policies and practices are under regular review by management and the board.

Treasury Policy
SKY has a formalised treasury policy that establishes a framework for:

- foreign exchange risk management;
- interest rate risk management;
- borrowing, liquidity and funding risk;
- cash management;
- counterparty credit risk;
- operational risk and dealing procedures; and
- reporting and performance management.

The objective of the policy is to reduce, spread and smooth interest rate and foreign exchange risk impacts on financial results over a multi-year period, reduce volatility in financial performance and ensure appropriate debt and liquidity arrangements for the business.

Communication and Disclosure Policy
SKY has a communication and disclosure policy designed to keep both the market and SKY's shareholders properly informed. The policy is also designed to ensure compliance with SKY's continuous disclosure obligations and includes posting press releases, annual reports and assessments, and other investor-focused material on its website. The policy is overseen by SKY's chief executive and company secretary.

Remuneration Policy and Performance Monitoring
SKY has policies in place to ensure that it remunerates fairly and responsibly. All executives and employees receive a portion of their salary based on individual and company wide performance. The executive incentive scheme is based on the concept of economic value added. In addition to their base salary, executives are remunerated for increasing the level of economic return on capital employed in the business. Bonuses are "banked", with 33% of the bank being paid out each year at the discretion of the board. The scheme promotes employee loyalty while ensuring that the cost of the scheme is proportionate to SKY's level of economic return.

The performance of key executives is monitored on a continual basis by the board and chief executive but principally as part of annual salary reviews.

Regulatory Policy
SKY has policies and procedures in place to ensure compliance with relevant laws, regulations and the NZX and ASX Listing Rules.

Health and Safety
SKY has an occupational health and safety policies and procedures manual and a group health and safety management committee to ensure that SKY fully complies with its health and safety obligations.

Insider Trading Policy
SKY has a formal policy in relation to insider trading which is set out in SKY's policies manual and included in its code of conduct. The policy provides that directors, officers and employees of SKY may not buy or sell securities in SKY, nor may they tip others, while in the possession of inside information. SKY's policy affirms the law relating to insider trading contained in the Securities Markets Act 1988.

Code of Conduct
SKY has a code of conduct which outlines SKY's policies in respect of conflicts of interest, corporate opportunities, confidentiality, insider trading and dealing with corporate assets, in addition to encouraging compliance with applicable laws and regulations. The code of conduct is posted on SKY's website: www.skytv.co.nz.

Audit and Risk Committee Charter and Audit Independence Policy
SKY has in place an audit and risk committee charter to govern the operation of the audit and risk committee as well as an audit independence policy to ensure that SKY's relationship with its auditors is appropriate. The audit and risk committee focuses on internal controls and risk management and particular areas of emphasis include:

- adequacy, appropriateness and effectiveness of accounting and operating controls;
- extent of compliance with SKY policies and procedures;
- accuracy of, and security over, data and information;
- accountability for SKY's assets to safeguard against loss;
- ensuring an effective internal control environment is fostered; and
- economy and efficiency with which resources are employed.

CORPORATE GOVERNANCE STATEMENT

CONTINUED

The audit independence policy is designed to ensure that there is no perception of conflict in the independent role of the external auditor. It restricts and monitors the types of services that the external auditor can provide to SKY, prohibits contingency-type fees and requires audit partner rotation every five years.

Independent Advice
SKY has a procedure for board members to seek independent legal advice at SKY's expense.

NZX and ASX Corporate Governance Best Practice Codes
The board considers that SKY complies with the NZX and ASX corporate governance best practice codes, except in relation to the following matters:

Directors and Chairman (ASX Recommendation 2.1 and 2.2; NZX Recommendation 2.3, 2.4, 2.6, 3.7 and 3.10):
The board considers that it is inappropriate to have a majority of independent directors and for the chairman to be independent because of the large number of shares held by News Limited and Todd Communications Limited. The board is comfortable that the minority shareholder interests are protected because it complies with the NZX Listing Rule requirement for the number of independent directors.

In addition, the related parties committee, which is made up solely of independent directors, reviews significant proposed related party transactions to ensure that they are conducted on an arm's length basis.

While the nomination and remuneration committee does not contain a majority of independent directors, the board considers that the members of that committee fulfill their roles and have the expertise required of members of such a committee. The chairman of the nomination and remuneration committee is an independent director.

To maintain flexibility, SKY approaches the nomination and appointment of directors on a case-by-case basis rather than having a documented method. Shareholders approve the pool of directors fees at annual meetings and the pool is allocated by the board as appropriate in accordance with market rates and information, rather than through a documented method or a recommendation of the nomination and remuneration committee.

SKY directors have been appointed on the basis of their experience in similar roles and SKY would pay for appropriate training on an as requested basis.

Formal Code of Conduct and Ethics (ASX Recommendation 3.1; NZX Recommendation 1.2):
SKY's code of conduct does not outline how breaches of its requirements are investigated or sanctioned as it is the board's view that this would be addressed on a case-by-case basis depending on the nature and seriousness of the breach.

Disclosure of Executive Remuneration (ASX Recommendation 8.2):
SKY complies with the NZX Listing Rules and Companies Act 1993 requirements regarding the disclosure of executives' and directors' remuneration and the board does not therefore consider that complying with ASX recommendations in this regard is appropriate for SKY.

Performance Based Equity Security Compensation Plan and Peformance Evaluation (NZX Recommendation 2.7, 2.9, 3.3, 3.9 and 3.12):
SKY did not provide a performance-based equity security compensation plan, nor were the directors encouraged to invest a portion of their remuneration in purchasing SKY's equity securities, in the year to 30 June 2010.

Performance of directors, committees and the board as a whole is assessed on an on-going basis throughout the year, rather than through a formal assessment procedure.

Confirmation of Financial Statements (ASX Recommendation 7.3):
SKY requires management to confirm in a written statement to the board that the financial statements are true and correct, although the wording of that statement is not exactly the same as the wording set out in section 295A of the Australian Corporations Act 2001.

Attending Audit and Risk Committee Meetings (NZX Recommendation 3.4):
SKY considers it appropriate that any director (whether or not a member of the committee) may attend audit and risk committee meetings without invitation.

Public Disclosure/Website Disclosure (Various ASX and NZX Recommendations):
SKY discloses its annual and half yearly reports, announcements and analysis as well as other investor-focused material on its website. The board does not currently consider that disclosing specific company policies and/or processes on SKY's website or otherwise is appropriate or necessary. The board will review this policy if industry practice changes.

INTERESTS' REGISTER

The following are particulars of entries recorded in the Interests' Register for the year to 30 June 2010:

DISCLOSURES OF INTEREST – GENERAL NOTICES

Directors have given general notices disclosing interests in the following entities pursuant to section 140(2) of the Companies Act 1993:

	ENTITY	RELATIONSHIP
Peter Macourt	Foxtel Management Pty Limited	Director
	News Limited and other subsidiaries of The News Corporation Limited	Director/Officer
	Premier Media Group Pty Limited	Director
Robert Bryden	Crown Castle Australia Pty Limited	Director
	Crown Castle Australia Holdings Pty Limited	Director
	Todd Capital Limited	Director /Officer
	Todd Land Holdings Limited and Todd Winegrowers Limited and various other subsidiaries of Todd Capital Limited[1]	Director
	Integria Healthcare Limited	Director
John Fellet	Media Finance Limited	Director
	Outside Broadcasting Limited (previously SKY Telecommunications (MR7) Limited)	Director
	Cricket Max Limited	Director
John Hart	Bayley Corporation Limited	Director
	New Zealand Warriors Limited	Director
	Global Rugby Enterprises Limited and certain subsidiaries of Global Rugby Enterprises Limited	Director/Shareholder
	New Zealand 2011 Group	Member
	The Professional Golfers Association of New Zealand	Member
Michael Miller	News Limited and other subsidiaries of The News Corporation Limited	Director/Officer
	Premier Media Group Pty Limited	Director
	Rugby International Pty Limited	Director
Humphry Rolleston	Asset Management Limited	Director/Shareholder
	Fraser, MacAndrew Ryan Limited	Director/Chairman
	Infratil Limited	Director/Chairman
	Matrix Security Group Limited	Director
	Mercer Group Limited and various subsidiaries of Mercer Group Limited	Director/Shareholder
	Property for Industry Limited	Director/Shareholder
	Media Metro NZ Limited	Director
	Murray & Company Limited	Director/Shareholder/ Chairman
John Waller	Donaghys Limited	Director/Shareholder
	Fonterra Co-Operative Group Limited	Director
	Haydn & Rollett Limited	Director
	Alliance Group Limited	Director
	BNZ Investments Limited	Director
	Bank of New Zealand	Chairman
	National Australia Bank Limited	Director/Shareholder
	National Equities Limited	Director
	Eden Park Redevelopment Board	Chairman
	Eden Park Trust	Chairman
	New Zealand Takeovers Panel	Member
	Auckland Transition Agency	Member

[1] Including Todd Communications Limited

INTERESTS' REGISTER

DISCLOSURES OF INTEREST – AUTHORISATION OF REMUNERATION AND OTHER BENEFITS

SKY's board did not authorise any additional payments of annual directors' fees during the year to 30 June 2010.

DISCLOSURES OF INTEREST – PARTICULAR TRANSACTIONS/USE OF COMPANY INFORMATION

During the year to 30 June 2010 in relation to SKY:

- no specific disclosures were made in the Interests' Register under section 140(1) of the Companies Act 1993; and
- no entries were made in the Interests' Register as to the use of company information under section 145(3) of the Companies Act 1993.

DISCLOSURES OF RELEVANT INTERESTS IN SECURITIES

During the year to 30 June 2010 in relation to SKY's directors and officers:

- no initial or continuous disclosures were made by officers in the Interests' Register under section 19T(2) of the Securities Markets Act 1988;
- one continuous disclosure was made in the Interests' Register as to dealings in SKY shares under section 148 of the Companies Act 1993 and section 19T(2) of the Securities Markets Act 1988 by John Fellet on 24 February 2010 in relation to the acquisition of legal ownership of 1,000 shares through the NZX for total consideration of $4,773.34.

INSURANCE AND INDEMNITIES

SKY has in place directors' and officers' liability insurance to cover risks normally covered by such policies arising out of acts or omissions of SKY directors or employees in that capacity.

SKY has entered into a deed of indemnity pursuant to which it has agreed to indemnify directors, senior management and officers of SKY against liability incurred from acts or omissions of such directors, senior management or officers, subject to certain exceptions which are normal in such indemnities.

COMPANY AND BONDHOLDER INFORMATION

DIRECTORS HOLDING AND CEASING OFFICE

At 30 June 2010 the following persons were directors of SKY:

Peter Macourt, Robert Bryden, John Fellet, John Hart, Michael Miller, Humphry Rolleston, John Waller

SUBSIDIARIES

At 30 June 2010, SKY had the following subsidiary companies: SKY DMX Music Limited, Screen Enterprises Limited, Cricket Max Limited, Media Finance Limited, and Outside Broadcasting Limited (previously SKY Telecommunications (MR7) Limited). During the year to 30 June 2010, SKY DMX Music Limited operated the SKY DMX music business and Screen Enterprises Limited acted as agent for the Screen Enterprises joint venture. None of the other subsidiaries traded during that period. While Outside Broadcasting Limited did not trade within that period, it was used to purchase the broadcast assets and business of On Site Broadcasting (NZ) Limited on 9 July 2010 and will operate that business from that date.

DIRECTORS OF SUBSIDIARIES

At 30 June 2010, the directors of SKY DMX Music Limited were Grant McKenzie, Martin Wrigley, Chris Furtado and Jonathan Patrick. The directors of Screen Enterprises Limited were Timothy Macavoy, Bryan Mogridge and Michael Watson. John Fellet was the only director of the remaining New Zealand subsidiaries. No director of any subsidiary company received directors' fees or other benefits as a director. The remuneration of SKY's employees acting as directors of subsidiary companies is disclosed in the relevant banding for employee remuneration on page 88 or, in the case of John Fellet, his remuneration is disclosed below under the heading "Remuneration of Directors".

STATEMENT OF DIRECTORS' INTERESTS

For the purposes of NZX Listing Rule 10.5.5(c), the following table sets out the equity securities (shares in SKY) in which each director had a relevant interest as at 30 June 2010:

RELEVANT INTERESTS	SHARES
Peter Macourt	–
Robert Bryden	–
John Fellet	96,600
John Hart	25,000
Michael Miller	–
Humphry Rolleston	–
John Waller	–

REMUNERATION OF DIRECTORS

Directors' remuneration and value of other benefits received by directors of SKY during the period 1 July 2009 to 30 June 2010 was as follows:

NAME	TOTAL REMUNERATION
Peter Macourt	$95,000
Robert Bryden	$87,000
John Fellet [1]	$1,350,000
John Hart	$89,000
Michael Miller	$65,000
Humphry Rolleston	$85,000
John Waller	$77,000

[1] John Fellet is also SKY's chief executive and a director of Cricket Max Limited, Media Finance Limited and Outside Broadcasting Limited (previously SKY Telecommunications (MR7) Limited). However, he did not receive any directors' fees during the above period. His remuneration, as specified above, comprises salary and performance based remuneration.

COMPANY AND BONDHOLDER INFORMATION

CONTINUED

SUBSTANTIAL SECURITY HOLDERS

According to notices given to SKY under the Securities Markets Act 1988, the following persons were substantial security holders in SKY as at 19 August 2010:

ENTITY	SECURITIES
News Limited (Nationwide News Pty Limited)[1]	169,854,716
Todd Communications Limited	43,220,277

[1] According to a notice dated 25 June 2010 issued under the Securities Markets Act 1988, News Limited is the registered holder of the securities noted above and Nationwide News Pty Limited has a deemed relevant interest in those securities because it is a related body corporate of News Limited.

The total number of issued voting securities of SKY as at 19 August 2010 was 389,139,785.

TWENTY LARGEST SHAREHOLDERS AS AT 19 AUGUST 2010

HOLDER NAME	HOLDING	PERCENTAGE (TO 2 D.P.)
News Limited	169,854,716	43.65
Todd Communications Limited	43,220,277	11.11
National Nominees Limited	15,063,879	3.87
JP Morgan Nominees Australia Limited	13,257,343	3.41
HSBC Nominees (New Zealand) Limited	12,576,828	3.23
National Nominees New Zealand Limited	10,408,075	2.67
Premier Nominees Limited	10,106,871	2.60
HSBC Custody Nominees (Australia) Limited	8,368,689	2.15
New Zealand Superannuation Fund Nominees Limited	8,170,450	2.10
Citicorp Nominees Pty Limited	7,967,687	2.05
Accident Compensation Corporation	7,768,271	2.00
TEA Custodians Limited	6,632,153	1.70
Cogent Nominees Pty Limited	5,990,313	1.54
Citibank Nominees (New Zealand) Limited	4,720,773	1.21
AMP Investments Strategic Equity Growth Fund	4,525,049	1.16
Westpac NZ Shares 2002 Wholesale Trust	2,956,370	0.76
Forsyth Barr Custodians Limited	2,727,188	0.70
Custody and Investment Nominees Limited	2,363,030	0.61
NZ Guardian Trust Investment Nominees Limited	2,273,007	0.58
Asteron Life Limited	2,248,500	0.58

DISTRIBUTION OF ORDINARY SHARES AND SHAREHOLDINGS AS 19 AUGUST 2010

	NO. OF SHAREHOLDERS	PERCENTAGE (TO 2 D.P.)	NO. OF SHARES	PERCENTAGE (TO 2 D.P.)
1 – 1,000	2,531	34.39	1,614,390	0.41
1,001 – 5,000	3,432	46.64	8,719,966	2.24
5,001 – 10,000	798	10.85	5,762,646	1.48
10,001 – 100,000	522	7.09	12,320,000	3.17
100,001 and over	76	1.03	360,722,783	92.70
TOTAL	7,359	100.00	389,139,785	100.00

NON MARKETABLE PARCELS OF SHARES

As at 19 August 2010, 183 shareholders in SKY had non-marketable parcels of shares for the purposes of ASX Listing Rule 4.10.8.

OTHER INFORMATION

For the purposes of ASX Listing Rule 4.10.14, 4.10.18 and 4.10.21, as at 19 August 2010:
- no securities in SKY were subject to voluntary escrow;
- there was no on-market buy-back; and
- SKY was not subject to s611 of the Corporations Act 2001.

VOTING RIGHTS ATTACHED TO SHARES

Each share entitles the holder to one vote.

DISTRIBUTION OF BONDS AND BONDHOLDINGS AS AT 19 AUGUST 2010

	NO. OF BONDHOLDERS	PERCENTAGE (TO 2 D.P.)	NO. OF BONDS	PERCENTAGE (TO 2 D.P.)
1 – 1000	–	–	–	–
1,001 – 5,000	234	8.74	1,170,000	0.59
5,001 – 10,000	608	22.71	5,830,000	2.91
10,001 – 100,000	1,708	63.80	59,429,000	29.71
100,001 and over	127	4.75	133,571,000	66.79
TOTAL	2,677	100.00	200,000,000	100.00

VOTING RIGHTS ATTACHED TO BONDS

Each bondholder is entitled to one vote for every dollar of principal outstanding on their bonds at meetings of bondholders. Bondholders do not have a right to attend or vote at shareholders' meetings.

COMPANY AND BONDHOLDER INFORMATION

EMPLOYEE REMUNERATION

The number of employees of SKY and its subsidiaries (excluding directors but including employees holding office as directors of subsidiaries, other than the chief executive) whose remuneration and benefits is within specified bands is as follows:

REMUNERATION $	NUMBER OF EMPLOYEES
100,000 – 110,000	30
110,001 – 120,000	15
120,001 – 130,000	8
130,001 – 140,000	10
140,001 – 150,000	2
160,001 – 170,000	1
170,001 – 180,000	4
180,001 – 190,000	3
190,001 – 200,000	4
200,001 – 210,000	4
210,001 – 220,000	2
230,001 – 240,000	1
280,001 – 290,000	1
320,001 – 330,000	1
340,001 – 350,000	2
350,001 – 360,000	2
360,001 – 370,000	2
370,001 – 380,000	1
520,001 – 530,000	1

The remuneration of SKY's chief executive, John Fellet, is not included in the above table as he is also a director of SKY. His remuneration is disclosed under the heading "Remuneration of Directors" on page 85.

DONATIONS

During the period 1 July 2009 to 30 June 2010, SKY made donations totalling $35,000. SKY's subsidiaries did not make any donations.

AUDITORS

The auditors of SKY and its subsidiaries were PricewaterhouseCoopers. The amount paid to PricewaterhouseCoopers by SKY in the year to 30 June 2010 for statutory audit services was $167,000 and for other assurance services was $194,000. SKY DMX Music Limited paid PricewaterhouseCoopers $7,000 in audit fees during the 2010 year and did not pay PricewaterhouseCoopers for any other services. SKY's other subsidiaries did not pay PricewaterhouseCoopers any fees.

WAIVERS AND INFORMATION

CURRENT AND ONGOING WAIVERS

Set out below are the waivers granted in favour of SKY which were applicable at 30 June 2010.

SKY was given the following waivers and confirmations by the ASX that apply to SKY on an ongoing basis:

(a) a waiver to permit SKY to lodge its half yearly and final reports in the form of an NZX Appendix 1 instead of an ASX Appendix 4D and ASX Appendix 4E, on the condition that SKY provides any additional information required by the ASX appendices as an annexure to the NZX Appendix 1;

(b) a waiver from ASX Listing Rule 6.10.3 to the extent necessary to permit SKY to set the "specified time" to determine whether a security holder is entitled to vote at a shareholders' meeting in accordance with the requirements of relevant New Zealand legislation;

(c) a waiver from ASX Listing Rule 7.1 to the extent necessary to permit SKY to issue securities under an off-market bid or to fund the cash consideration of a takeover bid, and ASX Listing Rule 10.11 to the extent necessary to permit SKY to issue securities to directors under an off-market bid, which is in each case required to comply with the New Zealand takeovers regime or an issue made pursuant to an arrangement, amalgamation or compromise effective pursuant to Part XIII or Part XV of the New Zealand Companies Act, without prior approval of shareholders in general meeting on the condition that at the relevant time the New Zealand Takeovers Code and any other applicable legislation governing corporate takeovers and mergers continues to provide a regime that is comparable to Australian law;

(d) a waiver from ASX Listing Rule 15.7 to permit SKY to provide announcements simultaneously to both ASX and NZX;

(e) a waiver from ASX Listing Rule 14.3 to the extent necessary to allow SKY to receive director nominations between the date three months and the date two months before the annual meeting;

(f) confirmation that SKY is not required to lodge accounts for the last three full financial years in accordance with ASX Listing Rule 1.3.5(a) in connection with its application for admission and quotation;

(g) confirmation that the rights attaching to SKY shares set out in SKY 's constitution are appropriate and equitable for the purpose of ASX Listing Rule 6.1 and comply with ASX Listing Rule 2.1;

(h) confirmation that ASX will accept financial accounts prepared in accordance with New Zealand GAAP and New Zealand Auditing Standards, and denominated in New Zealand dollars;

(i) confirmation that SKY can provide substantial holder information provided to it under the New Zealand Securities Markets Act 1988; and

(j) confirmation that SKY's structure and operations are appropriate for an ASX listed entity for the purposes of ASX Listing Rule 1.1 (condition 1).

In connection with the proposed share buy back programme approved at SKY's annual meeting in October 2007, SKY was given the following waivers by the ASX:

(a) a waiver from ASX Listing Rule 7.29 to the extent necessary to permit SKY to buy back shares on the NZX without reference to the number of days on which trades are recorded on ASX; and

(b) a waiver from ASX Listing Rule 7.33 to the extent necessary to permit SKY to buy back shares on the NZX at a price which is greater than 5 per cent above the average of the market price for securities in that class calculated over the last five days on which sales in the shares were recorded before the day on which the purchase under the buy-back was made, on condition that SKY conducts the buy-back on NZX in accordance with New Zealand law.

WAIVERS AND INFORMATION

ADMISSION TO THE OFFICIAL LIST OF THE AUSTRALIAN STOCK EXCHANGE

In connection with SKY's admission to the official list of the ASX the following information is provided:

1. SKY is incorporated in New Zealand.
2. SKY is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act dealing with the acquisition of shares (such as substantial holdings and takeovers).
3. Limitations on the acquisition of the securities imposed by New Zealand law are as follows:
   (a) In general, SKY securities are freely transferable and the only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand laws relating to takeovers, overseas investment and competition.
   (b) The New Zealand Takeovers Code creates a general rule under which the acquisition of more than 20% of the voting rights in SKY or the increase of an existing holding of 20% or more of the voting rights in SKY can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90% or more of SKY shares.
   (c) The New Zealand Overseas Investment Act 2005 (and associated regulations) regulate certain investments in New Zealand by overseas persons. In general terms the consent of the New Zealand Overseas Investment Office is likely to be required where an "overseas person" acquires shares or an interest in shares in SKY that amount to more than 25% of the shares issued by SKY or, if the overseas person already holds 25% or more, the acquisition increases that holding.
   (d) The New Zealand Commerce Act 1986 is likely to prevent a person from acquiring SKY shares if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market.

SHARE MARKET AND OTHER INFORMATION

NEW ZEALAND

SKY's ordinary shares are listed on the main board of the NZX and trade under the symbol SKT. SKY's bonds are listed on the NZDX and trade under the symbol SKTFA. SKY's International Security Identification Number issued for the Company by the NZX is NZSKTE0001S6.

NZX Limited, Level 2, NZX Centre,
11 Cable Street, Wellington, New Zealand.
Mailing address: P.O. Box 2959, Wellington, New Zealand.
Tel: 64 4 472 7599; Fax: 64 4 496 2893;
Website: www.nzx.com

AUSTRALIA

SKY's ordinary shares are also listed on the ASX and trade under the symbol SKT.

Australian Stock Exchange, Exchange Centre,
20 Bridge Street, Sydney, NSW 2000, Australia.
Mailing address: P.O. Box H224, Australia Square, Sydney, NSW 1215, Australia.
Tel: 61 2 9338 0000; Fax: 61 2 9227 0885;
Website: www.asx.com.au

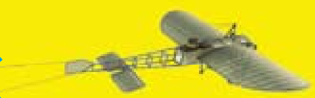
FINANCIAL CALENDAR

2009/2010 Financial year end	30 June 2010
2009/2010 Full year results announced	20 August 2010
Next Annual Meeting	28 October 2010
2010/2011 Half year results announced	February 2011
2010/2011 Financial year end	30 June 2011
2010/2011 Full year results announced	August 2011

ANNUAL MEETING

The next annual meeting of SKY Network Television Limited will be held at the Rydges Harbourview Auckland Hotel, corner Federal and Kingston Streets, Auckland, New Zealand, on 28 October 2010, commencing at 2 pm.

SKY CHANNELS



FOR THE YEAR ENDED
30 JUNE 2010

TYPES OF CHANNELS

30	BASIC CHANNELS	13	FREE-TO-AIR CHANNELS	13	PPV MOVIE CHANNELS
5	SPORT CHANNELS	15	SPECIAL INTEREST CHANNELS	1	PPV EVENT CHANNELS
6	MOVIE CHANNELS	8	RADIO CHANNELS	3	PPV ADULT CHANNELS
4	INTERACTIVE CHANNELS	14	AUDIO MUSIC CHANNELS	112	TOTAL

30 BASIC CHANNELS

5 SPORT CHANNELS

6 MOVIE CHANNELS

OTHER

14 AUDIO MUSIC CHANNELS
13 PPV MOVIE CHANNELS
1 PPV EVENT CHANNELS
3 PPV ADULT CHANNELS

4 INTERACTIVE CHANNELS

13 FREE-TO-AIR CHANNELS

15 SPECIAL INTEREST CHANNELS

8 RADIO CHANNELS

DIRECTORY

REGISTRARS

Shareholders should address questions relating to share certificates, or changes of address or any administrative questions to SKY's share registrar as follows:

NEW ZEALAND ORDINARY SHARE REGISTRAR

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna,
North Shore City 0622
Mailing address: Private Bag 92119,
Auckland 1142, New Zealand
Tel: 64 9 488 8777; Fax: 64 9 488 8787
Email: enquiry@computershare.co.nz

AUSTRALIAN BRANCH REGISTER

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067
GPO Box 2975
Melbourne VIC 3001
Australia
Freephone: 1300 850 505 (within Australia)
Tel: 61 3 9415 4083; Fax: 61 3 9473 2500
Email: enquiry@computershare.co.nz

BONDHOLDER TRUSTEE

The New Zealand Guardian Trust Company Limited
Vero Centre, Level 7, 48 Shortland Street, Auckland,
New Zealand
Mailing address: P.O. Box 1934
Auckland, New Zealand
Tel: 64 9 377 7300; Fax: 64 9 377 7470
Email: web.corporatetrusts@nzgt.co.nz

DIRECTORS

Peter Macourt (Chairman)
Robert Bryden (Deputy Chairman)
John Fellet (Chief Executive)
John Hart, ONZM
Michael Miller
Humphry Rolleston
John Waller

EXECUTIVES

John Fellet:	Director and Chief Executive
Jason Hollingworth:	Chief Financial Officer and Company Secretary
Kevin Cameron:	Director of Sport
Greg Drummond:	Director of Broadcast Operations
Travis Dunbar:	Director of Entertainment
Charles Ingley:	Director of Technology
Richard Last:	Director of Sports Content and New Media
Rawinia Newton:	Director of Advertising Sales
Tony O'Brien	Director of Communications
Mike Watson	Director of Marketing
Martin Wrigley	Director of Operations

NEW ZEALAND REGISTERED OFFICE

10 Panorama Road, Mt Wellington, Auckland
Tel: 64 9 579 9999; Fax: 64 9 579 0910
Website: www.skytv.co.nz

AUSTRALIAN REGISTERED OFFICE

c/- Allens Arthur Robinson Corporate Pty Limited
Level 28, Deutsche Bank Place
Corner Hunter and Philip Streets
Sydney, NSW 2000;
Tel: 61 2 9230 4000; Fax: 61 2 9230 5333

AUDITOR TO SKY

PricewaterhouseCoopers
PricewaterhouseCoopers Tower,
188 Quay Street, Auckland
Tel: 64 9 355 8000; Fax: 64 9 355 8001

SOLICITORS TO SKY

Buddle Findlay
PricewaterhouseCoopers Tower,
188 Quay Street, Auckland
Tel: 64 9 358 2555; Fax: 64 9 358 2055

Insight Creative Limited. Auckland. Wellington. Sydney. SKY035 09/10