

# OUT OF THE BOX

**SKY**

ANNUAL REPORT  
2011



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# HIGHLIGHTS

TOTAL REVENUE

**\$797m**

TOTAL SUBSCRIBERS

**829,421**

EBITDA

**\$322m**

ARPU UP 4.2%

**\$70.45**

CAPITAL EXPENDITURE

**\$170m**

MY SKY SUBSCRIBERS

**279,875**

NPAT

**\$120m**

CHURN

**14.0%**

**WE ARE NOT  
JUST A TELEVISION  
COMPANY**



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*We do not consider ourselves to be either a pay television or a satellite company, but rather a company that creates and aggregates content for consumers to watch, read 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 3G or 4G mobile phones.*

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***We deliver to you your happy place,  
when and where you want.***

# CHAIRMAN'S LETTER

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***This was another year where the economy provided plenty of challenges. However I am pleased to tell you that SKY has performed exceptionally well. In the year to 30 June 2011 SKY increased subscriber numbers, held churn at almost the same level as the previous year and continued its strong growth in the number of MY SKY decoders.***

Total revenue was \$797 million, a 7.4% increase compared to last year. This can in part be attributed to the 3.4% increase in new subscribers. 27,024 new subscribers joined SKY, bringing total subscribers to a new high of 829,421.

The number of MY SKY subscribers has continued to increase, typically attracting customers who watch more television. The total number of MY SKY subscribers was 279,875 at 30 June 2011, an increase of 47.3% from the previous year. Currently more than 35% of all SKY subscribers enjoy this personal video recorder technology.


Operating costs were \$475.3 million, a 4.6% increase on the previous year. The increase can be primarily attributed to the depreciation of OSB assets, increased advertising costs (associated with greater advertising revenue) and an increase in subscriber management costs.

iSKY, SKY's online TV website was successfully launched in January this year. A number of internet service providers offer unmetering of the data used for iSKY, delivering additional value to SKY subscribers. With the government project to deliver UFB (ultra-fast broadband) to 75% of New Zealanders and the ever growing desire to consume content via devices other than the TV, iSKY will become a significant alternative to satellite for the delivery of content.

SKY continues to strengthen and grow its programming with eight new channels added in 2011; TVNZ kidzone24, MTV Classic, Nick Jr, RT (Russia Today), Daystar, SKY Sport Mosaic and France 24 (in both English and French language). Three new high definition channels were also launched; ESPN, SKY Sport 3 and SKY On Demand HD.

SKY continues to deliver excellent value to sport enthusiasts throughout New Zealand with eight sport channels on offer. The live broadcast of the Delhi Commonwealth Games; five dedicated sport channels on SKY plus 17 hours a day live on Prime was one of the highlights from 2010. Newly acquired exclusive rights to International Silver Ferns Netball complements the Trans-Tasman Netball SKY already broadcasts. As well as netball being shown exclusively live on SKY, the new agreement allows Prime to provide a free-to-air viewing option for netball fans. We look towards the Rugby World Cup where we are poised to showcase to the world our expertise in sport production and to thrill sport subscribers with live broadcasts of all 48 games.

Finally, my sincere thanks to Chief Executive Officer John Fellet; his leadership has helped the company to continue its great success story. I would also like to thank the senior management team at SKY, all SKY employees, contractors and of course subscribers for their ongoing support of the company.



**Peter Macourt**  
Chairman



*iSKY, SKY's online TV website was successfully launched in January this year. A number of internet service providers offer unmetering of the data used for iSKY, delivering additional value to SKY subscribers.*

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Total revenue  
**\$797 million**  
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The total number of MY SKY subscribers was  
**279,875**  
at 30 June 2011.

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**STILL  
ON THE RISE**

# CHIEF EXECUTIVE'S REVIEW

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**Dear Shareholders,**

***If you have been a shareholder of SKY Network Television 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 in this Annual Report is quite detailed but still only provides a financial snapshot of the business. In the ten annual letters I have drafted since becoming CEO I have attempted 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 or a satellite company, but rather a company that creates and aggregates content for consumers to watch, read 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 3G or 4G mobile phones. They may want to watch it live, when we schedule it, or time shift it to when they want to see it. In the case of our magazines (SKYWATCH and SKY Sport The Magazine) or websites, they can read it any time. The content can be in the form of physical tapes, digital impressions, internet download, magazine print or one of our 27,000 DVD titles from the library of our DVD online rental business Fatso.

In my opinion the New Zealand economy continues to improve. For the year ending 30 June 2011 we added 27,024 subscribers which brought our total to 829,421. This is an encouraging result. The year before our net gain was only 23,495. The increase breaks a slide of decreasing net gains that started with the global financial crisis. The gain would have been even better if not for the series of earthquakes that have plagued Christchurch. After the first one hit in September 2010 we started hearing from

subscribers who did not want to disconnect but had no access to their house and television.

Our Christchurch employees ably led by SKY's Provincial Manager, Julian Walker and his team have done an unbelievable job under impossible conditions to serve and retain customers. We started by putting subscribers who were affected by the earthquake into a suspended account, which allowed them to retain their decoder but we were able to electronically turn off the service. In most cases we would not have had the option to pick up the decoders anyway because no one was allowed access into the home. At one stage we had 4,400 customers in suspended accounts as a result of the impact of the earthquake.

We have continued to work with these customers. At the end of the year the number of suspended accounts was down to 650 households. I stress these are subscribers who think they will get back into their homes and will activate their account. The year end subscriber numbers include these non paying subscribers.

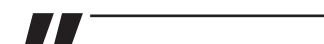
Out of the original 4,400 accounts, by the end of the year, 900 subscribers had been lost. It is possible some of these customers have moved to a different part of the city or country and come back to us. Our financials were impacted even more by the loss of Christchurch's central business district. We have lost 220 commercial customers including the largest hotel in the South Island.

Top line growth continues to be a great story. Two years ago SKY's revenues were up by 5% which is not bad for a corporation that has been in New Zealand for more than 20 years. Last year revenue growth was up by 7.2%. In the year ending 30 June, 2011 I am pleased to report our revenue was up by 7.4%.

This increase is driven from three sources. First of all we are gaining subscribers. Also, many of the existing subscribers are taking on additional goods and services. This includes additional service tiers such as Movies, Sports and Rialto. In addition to its service offerings, SKY, over the last few years has become to some degree a hardware company.



**John Fellet, Chief Executive Officer**



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For the year ending 30 June 2011 we added

**27,024**

subscribers which brought our total to 829,421.

## CHIEF EXECUTIVE'S REVIEW

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*We have now introduced a new MY SKY decoder that has one terabyte of memory. This box has four times the memory of the earlier box, which is important as we continue to expand our high definition (HD) offerings.*

The New Zealand television advertising market for the year was **\$613 million**, which was up 5% for the year.

We ended the year with **279,875** MY SKY subscribers; this is over a third of our total SKY subscribers!

We have invested another **\$15 million** upgrading the HD capability.

In my 34 years of pay television experience I have never been involved in a product launch that has been as successful as the MY SKY decoder. The MY SKY decoder is a personal video recorder (PVR) which allows the subscribers to build a library of content from all the SKY channels to watch when they wish. The MY SKY decoder can record two channels at the same time as playing out a programme that has previously been recorded. If you like a particular programme, MY SKY allows you to "series link" it, which will record the programme every time it airs.

We have now introduced a new MY SKY decoder that has one terabyte of memory. This box has four times the memory of the earlier box, which is important as we continue to expand our high definition (HD) offerings. HD content, with its increased resolution, takes up four times the space that an identical standard definition programme does.

We ended the year with 279,875 MY SKY subscribers; this is over a third of our total number of subscribers! Without a doubt having MY SKY decoders in the home is a value driver for SKY. On average we lose 14% of our subscribers each year. This figure is low compared to international standards. Subscribers disconnect for numerous reasons and more often than not they come back, but if you have taken the time to record 50-60 television series, movies and sporting events it is less likely that you will disconnect. It would be like giving up your private DVD collections.

How much less likely are subscribers willing to disconnect if they have a MY SKY... about 27% less likely. MY SKY has a churn rate of 10% a year.

The growth of the MY SKY penetration has to some degree left a question about how MY SKY affects viewership. Later in this report you will see a figure showing that SKY's share of viewing is declining. I am not alarmed and neither should you be. I suspect the decline is due to the current ratings system not measuring the viewing patterns of the subscribers who watch SKY with the MY SKY decoder.

Although the correct ratio of SKY subscribers were recruited to be part of the viewing panel, households with a MY SKY decoder have not been included due to the current system not being able to measure played back viewing on a MY SKY decoder.

Normally one would think that household viewing would be the same no matter what type of decoder a home has but I do not think that is the case. The MY SKY customers pay a premium to have a MY SKY unit. They want to exploit all the advantages a MY SKY gives them. MY SKY customers are engaged with the content.

The good news is that as I write this letter Nielson TAM is addressing this. I am convinced that once Nielson TAM starts including the viewing of MY SKY homes you will start to see a lift in SKY viewing.

If you are comparing this year's Financial Statements to last year, there are a few items you should be across. First of all the advertising market is returning to pre-recession levels. The New Zealand television advertising market for the year was \$613 million, which was up 5% for the year. This is still below the peak years of 2007/2008 when the market topped out at \$663 million. Our advertising revenues were up 16.7% so again we took a larger share of advertising revenues.

Another change during the year has been the acquisition of the assets and business of On Site Broadcasting (NZ) Limited (On Site) from Prime Media Group. Assets acquired included the cameras and vans used to generate video footage at sporting venues up and down the country. It was not a big purchase, about \$13 million. Since then we have invested another \$15 million upgrading the HD capability. The assets were acquired by SKY's subsidiary Outside Broadcasting Limited (previously SKY Telecommunications (MR7) Limited).

There were a couple of reasons for this purchase. First of all On Site was a key partner with SKY. Two years ago they produced 330 sporting



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broadcast events for us, almost one a day. During the financial crisis the parent corporation needed to reorganize their financial affairs and put the business up for sale.

HD vans are a commodity that can be put on a container ship and sent anywhere around the world. We could not afford the risk of losing these vans in light of SKY being the host broadcaster for the 2011 Rugby World Cup, the largest sporting event in the history of New Zealand, plus our ongoing commitment to local sports production every week.

The acquisition of On Site's business had two impacts on our business. Firstly costs to produce sporting events all of a sudden became a fixed cost. Instead of paying On Site so much money per event, all sports production effectively became a fixed cost other than the marginal labour costs. This has allowed us to do more sports productions at a minimal extra cost.

In this latest year we did 500 outside broadcast days. An all time record was set on the 13 August 2011 where OSB did four ITM Cup games, a Warriors Game and the David Tua fight. The event based charges that normally would hit the programme operations line now also show up as depreciation and interest expense.

## **MOST FREQUENTLY ASKED QUESTIONS**

Over the last few years I have listed some of the questions and my answers that I have been asked by some of the best and the brightest fund managers and analysts who follow SKY. Some of you have written that you have enjoyed them so I am doing it again this year.

### ***“Who is next in succession to take over if something happens to you?”***

Sadly the more grey hair I get the more often this question is asked. In October of this year I would have been at SKY 21 years and CEO for the last 11 years. I am one of the longest serving CEOs in New Zealand. I am 58 years of age and I am more excited about coming into work than I have ever

been. I have every intention of working to the age of 65 if the Board still thinks I can contribute to the company's success.

But make no mistake about this company; value does not lie in the creative genius of its CEO like at Apple Inc. The “playbook” and how we run SKY, while evolving, is well known by my executive team. If I was to walk out tomorrow the business would continue to run.

I think my usefulness is in my ability to evaluate content, be a good listener and know a good idea when I hear it. We have about 1,000 employees in a very flat organisational structure. In my weekly “Cabinet” meeting I have my eleven direct reports and a couple of other key employees that thrash out strategy and direction on a continuing basis. The company turned on its first subscriber 21 years ago. Yet, the average tenure of my cabinet participants is over 17 years which is an amazing length and says more about the culture of SKY than anything else. In 2006 SKY had 714 FTE employees. Of these, 497 (almost 70%) are still with us today.

My replacement could easily come from my “Cabinet”. Also, News Corporation has a large investment not only in SKY New Zealand but in numerous other pay television networks. There is no doubt in my mind they would be willing to act as a talent scout for the Board. It is also possible that the correct skill set needed for the best CEO for SKY may require someone from outside the industry.

### ***“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.

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**1000**

employees in a very flat organisational structure.

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In 2006 SKY TV had 714 FTE employees. Of these,

**497**

(almost 70%) are still with us today.

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## CHIEF EXECUTIVE'S REVIEW

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*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.*

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In the year just ended, SKY generated  
**\$271 million**  
in cash.

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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.

The knowledge learned from that failure became the foundation of the launch of our successful online video service, “iSKY”. The key to the success of the new product is that we contracted with Orcon to provide a content delivery network (CDN). A CDN is a system of computers containing copies of data placed at various nodes of a network. When properly designed and implemented, a CDN improves access to the data it caches by increasing access bandwidth and redundancy and reducing access latency.

The new service enables users to access an extensive selection of our online content streamed directly to personal computers. iSKY includes three live Sports Channels, two live News Channels and free catch up viewing for the basic channels and free-to-air channel Prime.

However the real key for success was the fact that our ISP partners were willing to waive data caps for the content they received from iSKY. These partners include Vodafone, Orcon, Slingshot, Woosh, Xnet, Snap, Wiz Wireless and Farmside. Without the contribution of these partners the service would not be viable.

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 3G and 4G. We are agnostic about technology; that means that we can extract value for our content no matter what device the consumer wants to use.

### **“What plans do you have for the cash flow the business is generating?”**

In the year just ended, SKY generated \$271 million in cash. From this amount we paid \$60 million in dividends. We also repaid \$74 million in debt thereby increasing the shareholder’s share of the business. About \$148 million was retained to expand the business internally including \$13 million to expand our broadcasting business for the Rugby World Cup requirements.

Any capital that is surplus to the needs of the business will be returned to shareholders in the most tax efficient manner possible.

The Board considered SKY’s results for the year and at its meeting in August resolved to pay a fully imputed dividend of 25 cents per share plus an increase in the final dividend to 10.5 cents per share.

Together with a supplementary dividend to offshore investors of 2.6 cents per share SKY will distribute a total dividend of \$141 million. This will be funded from SKY’s new five year, \$400 million revolving credit bank facility, taking drawings from \$205 million at 30 June 2011 to \$345 million. This distribution is acknowledgement of the successful growth of the Company over the last 21 years.

As always I hope this letter gives a good insight into the business and I look forward to seeing you at our Annual General Meeting at the Stamford Plaza, Auckland Hotel on 21 October 2011.

**John Fellet**  
Chief Executive Officer

# BUSINESS OVERVIEW

## SUBSCRIBERS

01 SKY has continued to increase its total subscriber base in the year to 30 June 2011 by adding a net 27,024 subscribers.

There are a total of 829,421 subscribers at 30 June 2011, with 799,933 being residential subscribers on SKY's satellite platform and TelstraClear's cable network. SKY's wholesale customers have increased by 5.3% to 124,712 at 30 June 2011.

SKY has continued to promote its MY SKY HDi decoder and at 30 June 2011 279,875 subscribers were receiving their pay television services via a MY SKY decoder compared to the 189,975 subscribers at 30 June 2010. This represents 35.0% of SKY's residential subscribers compared to 24.4% of residential subscribers at 30 June 2010. There were 20,804 "other" subscribers at 30 June 2011 which includes subscribers to SKY's commercial music business SKY DMX Music and its DVD rental business, Fatso.

## CHURN

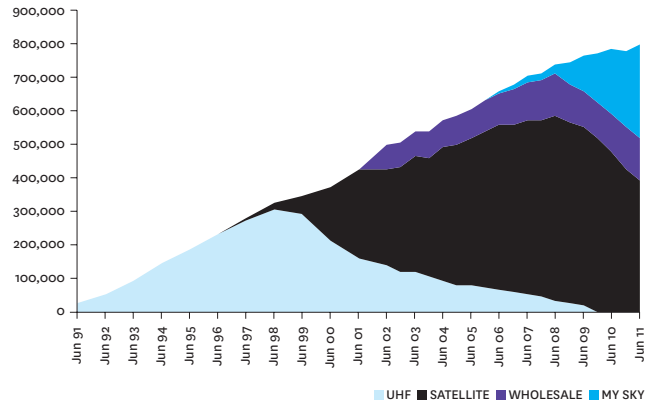
02 Churn is a measure of the percentage of subscribers who disconnect their service either voluntarily or due to a failure to pay their account. SKY calculates churn on a rolling gross annual basis, which means that each month we calculate the subscribers who have disconnected as a percentage of the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

Annual gross churn is 14.0% as at 30 June 2011 which is a slight increase from the 13.9% churn for the year to 30 June 2010. MY SKY churn has remained constant at 10.1% and churn on standard digital decoders has increased to 15.8% from 14.8% last year.

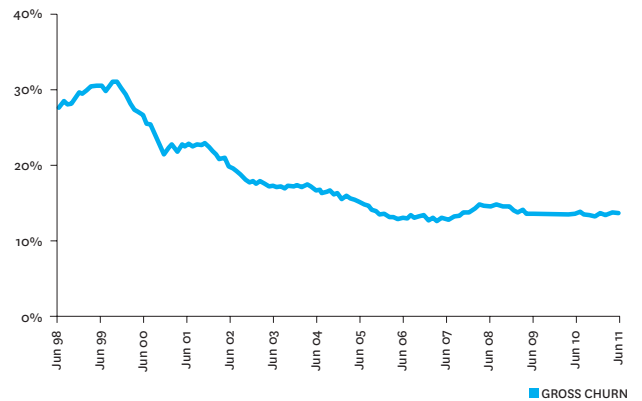
## VIEWING

03/04 During the 2011 year the viewing of free-to-air channels in SKY homes increased by 6.1% to an average of 296 hours per month while viewing on SKY channels during the year has remained the same as in the prior year at 155 hours. This resulted in a drop in SKY's share of total television viewing in all NZ homes from 28.2% to 27.9%.

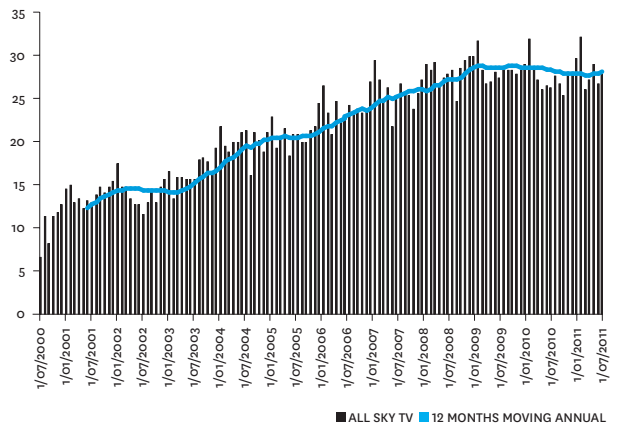
01 SUBSCRIBERS



02 ROLLING ANNUAL GROSS CHURN



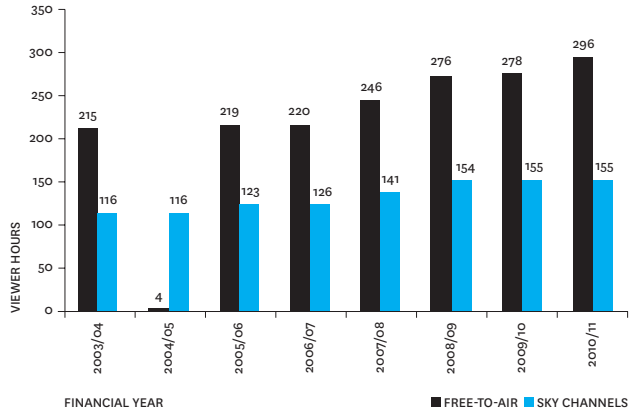
03 SKY TV - % SHARE OF VIEWING IN ALL NZ HOMES



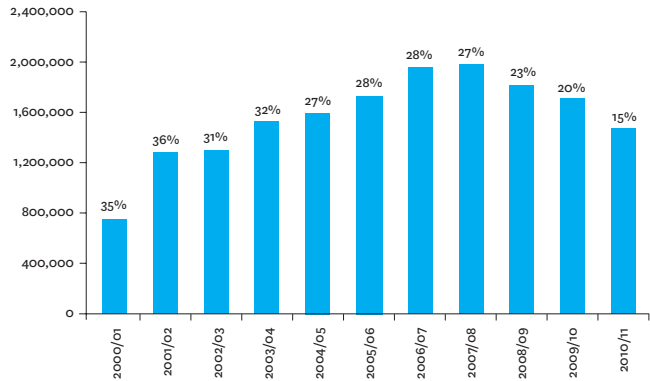
# BUSINESS OVERVIEW

- 05 SKY continues to offer pay-per-view (PPV) programming on its satellite platform, with 14 scheduled PPV channels. Buy rates, which measure the percentage of subscribers who purchase a title each month, have dropped from 20% in 2010 to 15% in 2011. A total of 1,466,432 PPV buys were purchased in 2011 compared to 1,710,436 buys purchased in 2010.
- 06 During the year there has continued to be growth in the average subscriber viewing hours for the basic tier of channels (up 3%) with annual viewing hours on the sports channels and movie tier declining by 3% and 5% respectively from June 2010 to June 2011. We suspect this decline in Movie and Sports viewing may be a result of MY SKY homes not being included in the AC Nielsen audience panel from which viewing data is extracted. AC Nielsen is planning to include MY SKY homes and time shifted viewing in its viewing statistics over the next year. The trend in SKY's viewing by genre over recent years is illustrated in the graph 06 opposite.

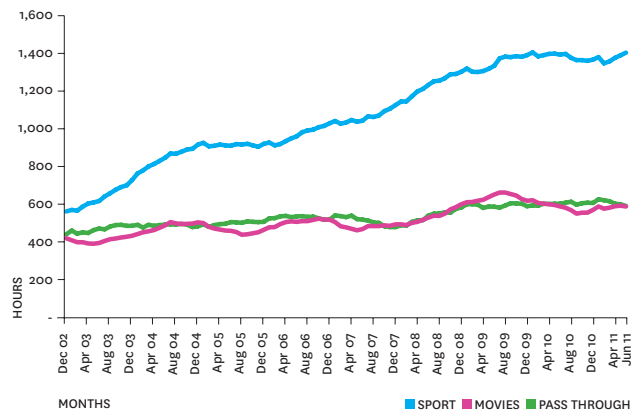
04 AVERAGE HOURS VIEWING SKY DIGITAL PER MONTH, PER SUBSCRIPTION



05 PPV BUYS WITH BUY RATE %



06 SKY VIEWER HOURS GENERATED PER SUBSCRIBER PER ANNUM



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## PROGRAMMING INITIATIVES

Six new channels were launched in 2011. These included:

- **TVNZ Kidzone24:** The TVNZ Kidzone Channel was launched in March 2011 in partnership with TVNZ. TVNZ Kidzone24 provides educational and entertaining content for young New Zealanders with a significant amount of locally produced programming.
- **MTV Classic:** Launched in June 2011, MTV Classic is a 24-hour music television channel designed specifically to showcase classic contemporary music and artists.
- **Nick JR:** Launched on 24 December 2010, Nick JR is a channel dedicated to kiwi preschoolers and showcases favourite award winning shows designed to stimulate, challenge and engage preschoolers.
- **RT:** Launched in November 2010, RT is an English-language news channel broadcasting from Moscow and Washington which brings the Russian view on global news.
- **Daystar:** Launched in July 2010, Daystar is a Christian television channel.
- **SKY Sport Mosaic:** This channel enables subscribers to view up to six channel windows on one screen and was launched in April 2011.

SKY also launched three new HD Channels - ESPN HD in June 2011, SKY Sport 3 HD in April 2011 and SKY On Demand HD in December 2010. A dedicated online channel, ESPN 3.com was also launched and this is available at no extra cost to sports subscribers via SKY's iSKY platform.

In October 2010 SKY broadcast the Delhi Commonwealth Games live from Delhi. SKY dedicated 5 channels to 24 hour coverage for the 12 days of the event including a special Commonwealth Games Mosaic Channel and 17 hours per day of free-to-air coverage on Prime.

SKY successfully negotiated extended coverage of the 2010-2011 Australian National Basketball League Season, with a Breakers' home game being broadcast live.

SKY renewed its rights to broadcast the ANZ Championship, the trans-tasman netball competition that was established by SKY in 2008. SKY also secured the rights to broadcast Silver Ferns netball from 2011.

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 tournament starts on 9 September 2011 and SKY will broadcast all games live.

## iSKY

iSKY is SKY's new online TV service giving SKY subscribers access to an extensive selection of online content streamed directly to personal computers. It was launched in January 2011. SKY has partnered with Vodafone, Orcon, Slingshot, Whoosh, Xnet and Farmside to create unmetered broadband plans for the new online TV service. iSKY offers a great variety and choice of video content within a single service including the streaming of three live sports and two live news channels, plus the ability to catch up on recently broadcast content at no cost for SKY's Basic channels including free-to-air channel Prime.

## IPHONE, IPAD AND IPOD TOUCH APPLICATION

In April 2011 SKY launched its first iPhone application with functionality that includes browsing the guide, setting programme alerts and remote recording of content to a subscriber's MY SKY decoder. Customer downloads of the application exceeded 50,000 in just four weeks, with over 100,000 downloads to date.

## MY SKY HDi

The MY SKY HDi decoder which was first launched in August 2008 has been highly successful and new functionality has been added during the current year. This includes the launch of "RECORD ME" enabling subscribers to book a programme for recording directly from a promo as well as the launch of a new generation box incorporating improved functionality such as a fourfold increase in storage capacity. At 30 June 2011 there were 279,875 MY SKY subscribers, of which only 15,579 are still the original MY SKY for non HDi subscribers. This represents 35.0% of SKY's residential subscriber homes. This is an increase of 89,900 from the 189,975 MY SKY subscribers at 30 June 2010. In 2011 24% of MY SKY installs were to new SKY subscribers compared to 19% 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 \$99 installation fee with an ongoing monthly fee of \$15 (incl. GST).

As at 30 June 2011, 5% of subscribers had opted to pay the up front fee compared to 6% paying up front in 2010. 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 2011, 20% of MY SKY HDi subscribers had opted to purchase the SKY HD channels and 31% had installed Multiroom. This means 51% of the MY SKY subscribers were receiving HD services, down from 58% last year. The ARPU from MY SKY subscribers to 30 June 2011 was \$84.79 compared to \$84.61 on 30 June 2010.

# BUSINESS OVERVIEW

## VALUE

- 07 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 packages at 30 June were as follows:

07 PRICE PER MONTH	2011 (\$)	2010 (\$)	% Inc/(dec)
Basic	45.00	48.93	(8.0)
Basic + Movies	65.70	69.18	(5.0)
Basic + Sport	70.29	66.70	5.4
Basic + Sport + Movies	90.99	84.95	4.6

- 08 Subscribers can alter the packages that they subscribe to, so there is always movement in the number of subscribers subscribing to different services. The table below summarises the percentage of subscribers to each of SKY's core services at 30 June 2011.

08 SUBS BY TIER	2011	2010
Basic + Sport + Movies	33%	38%
Basic + Sport	38%	38%
Basic + Movies	8%	7%
Other	21%	17%

- 09 The percentage of subscribers to SKY's premium package of "Basic + Sport + Movies" has dropped by 7% this year while penetration of the "Basic + Sport" package has increased by 2%. A total of 537,117 subscribers receive the SKY Sport tier, compared to 555,346 last year.

09 MY SKY TIER PENETRATION	2011	2010
Basic + Sport + Movies	42%	49%
Basic + Sport	35%	33%
Basic + Movies	9%	8%
Other	14%	10%

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

10 DIGITAL TIER PENETRATION	2011	2010
Basic + Sport + Movies	28%	34%
Basic + Sport	39%	39%
Basic + Movies	8%	7%
Other	25%	20%

## ACTIVATIONS

The level of installation activity is determined by a combination of the level of churn, net gain in new subscribers, and the number of subscribers transferring due to a change of address. The total number of customer activations in 2011 was 196,734 compared to 217,987 in 2010. The 2010 figures included the migration of UHF subscribers to SKY's satellite platform.

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 75% of SKY's activations were decoder only installs in 2011 (68% in 2010), which are significantly cheaper than the cost of a full install that also includes a dish, telephone jack, internal wiring and labour costs.

- 11 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). There has been an 18.6% growth in the number of Multiroom outlets as follows:

11 MULTIROOM	2011	2010
Satellite homes	59,957	64,126
MY SKY homes	91,552	63,577
<b>Total Multiroom</b>	<b>151,509</b>	<b>127,703</b>

## 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 2011, the average cost of installing subscribers (material/labour) was \$392 compared to an average of \$382 in the previous year. The average decoder cost in 2011 was \$380 compared to \$475 in 2010. This reduction is due to a reduction in the USD cost of a decoder as well as an increase in the average exchange rate from 0.63 cents in 2010 to 0.72 cents in 2011.

## SATELLITE

SKY is currently utilising seven transponders on the Optus D1 satellite. The satellite is located at 160° E, which is where the satellite dishes installed by SKY are pointed.

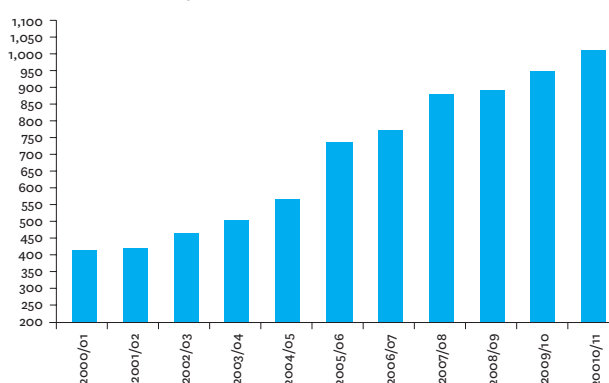
Optus launched the D2 satellite at the 152° E position in October 2007 and the D3 satellite was launched in August 2009 at the 156° E position. Both of these satellites have transponders capable of delivering direct to home (DTH) satellite services to New Zealand. SKY has agreed a restoration plan with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

To assist in the recovery of services should there ever be a failure of the D1 satellite, SKY has developed LNBs that can be electronically switched to the 156° E orbital location. This would enable SKY to utilise the dedicated back-up transponders that are included on the Optus D3 satellite. Currently approximately 630,000 homes have been fitted with these new LNBs.

## EMPLOYEES

- 12 SKY has increased the number of full time equivalent employees by 6% to 1,012 in the current year. SKY also employs around 300 contractors in a range of specialist areas. SKY celebrated its 20th year anniversary in 2010. 46 employees have been with the company for more than 20 years. Of SKY's permanent staff, 49% have been with the company longer than five years.

12 FULL-TIME EQUIVALENT STAFF



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# **BUSINESS OVERVIEW**

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## **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 titles from a website and depending on the package that is subscribed to, a subscriber can access between one and 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 2011 there were 20,398 Fatso subscribers, up from 15,816 at 30 June 2010.

## **WHOLESALE PARTNERSHIPS**

SKY has recently signed a three year renewal of its wholesale agreement with Telecom and added Slingshot as a reseller of SKY services.

SKY also wholesales its pay television services to telecommunication companies TelstraClear and Vodafone.

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.

## **PRIME**

In February 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, TV2) and MediaWorks (owner of FTA channels TV3 and TV Four) 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 decreased its share of the television audience (all 5+) in 2011 to an average of 4.9% from 5.5% in 2010. Despite this fall in audience share, the advertising market has recovered during the current year which resulted in Prime increasing its revenue by 17.7% to \$23.7 million.

## **OUTSIDE BROADCASTING LIMITED**

In July 2010, the Group through its subsidiary Outside Broadcasting Limited (OSB) acquired certain assets and liabilities of On Site Broadcasting (NZ) Limited (On Site) from the Australian media company Prime Media Group for a cost of \$13.5 million. On Site has been providing SKY with the broadcasting vans, equipment and personnel required to produce sporting events around New Zealand for the past nine years. OSB acquired On Site's three high definition and three standard definition broadcasting vans, associated equipment and 19 staff. SKY also entered into an agreement with Prime to pursue third party broadcast revenue and will share these earnings on a 50/50 basis. OSB purchased a new high definition broadcasting van which was delivered in June 2011 at a cost of \$10 million.



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# FINANCIAL OVERVIEW

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## SUMMARY

SKY has earned a net profit after tax (“NPAT”) of \$120.3 million for the year ended 30 June 2011, a 17% increase on the previous year’s net profit after tax of \$103.0 million.

Earnings before interest, tax, depreciation and amortisation (“EBITDA”) increased by 11.9% to \$321.7 million. The results are summarised as follows:

FOR THE YEARS ENDED 30 JUNE	2011	2010	% Inc/(dec)
<b>IN NZD MILLIONS</b>			
<b>Financial performance data</b>			
Total revenue	796.9	741.8	7.4
Total operating expenses	475.2	454.3	4.6
<b>EBITDA</b>	<b>321.7</b>	<b>287.5</b>	<b>11.9</b>
Less			
Depreciation and amortisation	125.0	112.5	11.1
Net interest expense and financing charges	25.3	31.0	(18.4)
Unrealised gains on currency and other	(0.6)	(2.5)	(76.0)
<b>Net profit before income tax</b>	<b>172.0</b>	<b>146.5</b>	<b>17.4</b>

A more detailed commentary on these results is provided below.

## REVENUE ANALYSIS

SKY’s total revenue increased by 7.4% to \$796.9 million, as follows:

FOR THE YEARS ENDED 30 JUNE	2011	2010	% Inc/(dec)
<b>IN NZD MILLIONS</b>			
Residential	648.4	606.7	6.9
Commercial	38.8	37.9	2.4
SKYWATCH	13.3	12.1	9.9
<b>Total subscription revenue</b>	<b>700.5</b>	<b>656.7</b>	<b>6.7</b>
Advertising	62.7	53.7	16.8
Installation, programme sales and other	33.7	31.4	7.3
<b>Total other revenue</b>	<b>96.4</b>	<b>85.1</b>	<b>13.3</b>
<b>Total revenue</b>	<b>796.9</b>	<b>741.8</b>	<b>7.4</b>

**Residential subscription revenue** increased 6.9% to \$648.4 million reflecting a 3.4% increase in subscribers and a 4.2% increase in average revenue per subscriber (“ARPU”). ARPU is a measure of the average revenue that SKY earns from subscribers each month.

# FINANCIAL OVERVIEW

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

NZD	2011	2010	% Inc/(dec)
DBS excluding wholesale	65.19	65.76	(0.9)
Wholesale	61.78	55.51	11.3
MY SKY	84.79	84.61	0.2
Total DBS and MY SKY including wholesale	70.45	67.61	4.2

**Commercial revenue** is the revenue earned from SKY installations at hotels, motels, restaurants and bars throughout New Zealand. This revenue increased 2.4% to \$38.8 million in 2011, reflecting a 1.5% increase in commercial subscribers and an increase in the purchase of additional services.

**SKYWATCH** is SKY's monthly programme guide that is sold for \$2.66 per month (incl.GST). Revenue from the guide increased 9.9% to \$13.3 million. This can be attributed to a 17.1% increase in paying customers. There were 431,702 subscribers to SKYWATCH at 30 June 2011 down from 441,575 in the previous year.

**Advertising sales revenue** increased 16.8% to \$62.7 million in 2011. Pay television advertising revenues increased from \$32.9 million in 2010 to \$39.0 million in 2011, an increase of \$6.1 million (18.5%).

This increase is also attributable to a \$2.9 million increase in Prime revenues from \$20.8 million in 2010 to \$23.7 million in 2011.

**Installation, programme sales and other revenues** increased by 7.3% to \$33.7 million in 2011. There has been a \$0.9 million decline in satellite installation revenues to \$13.8 million offset by a \$3.2 million increase in other revenues, \$2.8 million of which is attributable to third party revenue generated by OSB.

## EXPENSE ANALYSIS

A further breakdown of SKY's operating expenses for 2011 and 2010 is provided below:

IN NZD MILLIONS	2011	2011	2010	2010	
		% of revenue		% of revenue	% inc/(dec)
Programming	255.9	32.1	246.2	33.2	3.9
Subscriber management	65.9	8.3	60.2	8.1	9.5
Broadcasting and infrastructure	72.6	9.1	74.5	10.0	(2.6)
Sales and marketing	40.9	5.1	39.2	5.3	4.3
Advertising	19.4	2.4	16.9	2.3	14.8
Other administrative	20.5	2.6	17.3	2.3	18.5
Depreciation and amortisation	125.0	15.7	112.5	15.2	11.1
<b>Total operating expenses</b>	<b>600.2</b>	<b>75.3</b>	<b>566.8</b>	<b>76.4</b>	<b>5.9</b>

**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, Living 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	2011	2010	% Inc/(dec)
Programme rights	209.0	195.8	6.7
Programme operations	46.9	50.4	(6.9)
<b>Total</b>	<b>255.9</b>	<b>246.2</b>	<b>3.9</b>

SKY's programming expenses have reduced to 32.1% of revenue in 2011.

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 2011, SKY made US dollar operating expense payments at an average exchange rate of 68.8 cents compared to the 65.1 cent rate in the previous year. Based on the 2011 results, a one cent movement in the USD/NZD rate would have affected operating costs by around NZD 1.6 million.

During 2011 SKY's total rights cost of NZD 209.0 million included rights denominated in foreign currencies of USD 74.9 million and AUD 35.8 million. These currencies were hedged at an average hedge rate of 66.9 cents for the USD and 84.4 cents for the AUD. If these costs had been converted at the average spot rate total programme costs would have been approximately NZD 202.6 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 SKY's sports tier. The rights 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 2011, 54% of SKY's total programming costs of \$255.9 million could be regarded as fixed costs, compared to 48% of the \$246.2 million of programming costs in 2010.

Programme operations costs decreased by \$3.5 million to \$46.9 million. This was principally due to the acquisition of On Site. Previously programme operations costs included approximately \$10.6 million costs paid to the previous owner of On Site for their broadcast services.

As SKY now owns this business, the costs are now included in the Group's consolidated operating results as follows:

IN NZD MILLIONS	
Revenue - other income	(2.8)
Programme operations	6.4
Depreciation and amortisation	6.3
<b>Net operating costs included in the consolidated results</b>	<b>9.9</b>

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## FINANCIAL OVERVIEW

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**Subscriber management cost** include 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 2011 subscriber management costs increased by \$5.7 million (9.5%) to \$65.9 million. This increase is primarily due to a \$4.8 million increase in contractor costs relating to the replacement of faulty LNBS and a \$1.5 million increase in employee costs.

**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 increased by 4.4% to \$40.9 million in 2011.

**Advertising costs** include the costs of operating SKY's advertising sales department which sells both SKY and Prime channels and includes the 20% sales commission that is paid to advertising agencies. Advertising sales costs increased 14.8% to \$19.4 million, reflecting the higher advertising revenues in 2011.

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

Broadcasting and infrastructure costs decreased by \$1.9 million (2.6%) to \$72.6 million. This was mainly due to a reduction in transmission costs of \$5.9 million resulting from the termination of the UHF linking contract with Kordia last year offset by an increase in transponder costs of \$0.8 million and employee costs of \$2.4 million.

**Other administrative costs** include the overhead costs relating to corporate management and the finance department. These costs have increased by 18.5% to \$20.5 million in 2011 from \$17.3 million in the prior year. This \$3.2 million increase is due to additional headcount, twenty year service awards for staff, and donations for the Christchurch earthquake.

**Depreciation and amortisation costs** include 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 \$12.5 million (11.1%) to \$125.0 million. Of this \$6.3 million relates to OSB with the balance reflecting the increased investment in additional MY SKY decoders and in broadcasting and infrastructure costs.

**Interest and financing costs** have reduced by 18.1% to \$25.3 million due to a \$74.0 million net reduction in borrowings as well as SKY's weighted average interest cost decreasing from 6.2% in 2010 to 5.6% in 2011, as follows:

	2011	2010
Bank loans	6.4%	6.5%
Bonds	4.5%	5.5%
Finance lease	6.9%	-
<b>Combined weighted average</b>	<b>5.6%</b>	<b>6.2%</b>

**Taxation expense** has increased by \$8.2 million (18.9%) to \$51.7 million reflecting the \$25.5 million (17.4%) increase in pre-tax profit.

## CAPITAL EXPENDITURE

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

IN NZD MILLIONS	2011	2010	2009	2008	2007
Subscriber equipment	44.6	40.5	63.2	22.4	24.0
Installation costs	50.9	62.0	46.5	40.2	38.0
Building	3.7	4.3	0.9	2.7	2.2
Broadcast upgrade	-	14.7	8.6	42.6	12.3
HD broadcasting truck	7.5	-	-	-	-
Other	28.3	17.5	13.0	11.6	4.9
<b>Total capital expenditure per cash flow statement</b>	<b>135.0</b>	<b>139.0</b>	<b>132.2</b>	<b>119.5</b>	<b>81.4</b>
<b>Acquisition of On Site Assets</b>	<b>34.7</b>	-	-	-	-
<b>Total capital expenditure</b>	<b>169.7</b>	<b>139.0</b>	<b>132.2</b>	<b>119.5</b>	<b>81.4</b>

Capital expenditure increased by \$30.7 million (22.1%) in 2011 to \$169.7 million.

The majority of this relates to the \$34.7 million acquisition cost of the OSB assets with a further \$7.5 million being spent on a new HD broadcasting truck for OSB offset by a reduction in installation costs of \$11.1 million.

Subscriber equipment costs increased by \$4.1 million.

Installation costs have decreased by \$11.1 being a reflection of the exceptional high cost in the prior year for migrating the remaining UHF subscribers from SKY's UHF platform to its satellite platform and installing the new quad LNBS in MY SKY homes.

The building cost of \$3.7 million is mainly due to the refurbishment of the warehouse in Mt Wellington which was purchased in the prior year for \$3.1 million.

The \$10.8 million increase in other includes \$5.9 million for the development of iSKY and an additional \$9.6 million being spent on various other technology projects.

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## ***BOARD OF DIRECTORS***

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**PETER MACOURT**



**ROBERT BRYDEN**



**JOHN FELLET**



**MICHAEL MILLER**



**JOHN HART**



**HUMPHRY ROLLESTON**



**JOHN WALLER**

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**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 over 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 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 Chairman of the Eden Park Redevelopment Board and the Eden Park Trust.

# 2011 FINANCIALS





# 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	2011	2010	2009	2008	2007
Total revenue	796,948	741,836	691,959	658,751	618,458
Total operating expenses <sup>(1)</sup>	475,273	454,336	430,998	392,168	369,094
<b>EBITDA<sup>(2)</sup></b>	<b>321,675</b>	<b>287,500</b>	<b>260,961</b>	<b>266,583</b>	<b>249,364</b>
Less/(Plus)					
Depreciation and amortisation	124,954	112,506	96,076	77,971	84,988
Net interest expense and financing charges	25,330	30,974	36,559	43,866	46,550
Unrealised (gains)/losses on currency and other	(641)	(2,498)	2,524	684	58
<b>Net profit before income tax</b>	<b>172,032</b>	<b>146,518</b>	<b>125,802</b>	<b>144,062</b>	<b>117,768</b>

## BALANCE SHEET - FIVE YEAR SUMMARY

AS AT 30 JUNE IN NZD 000	2011	2010	2009	2008	2007
Property, plant, equipment and non-current intangibles	391,268	342,124	315,665	279,650	237,440
Goodwill	1,424,494	1,423,427	1,423,427	1,423,077	1,422,115
Total assets	1,940,560	1,909,161	1,872,797	1,834,656	1,780,181
Total debt and lease obligations	418,303	472,117	500,550	501,983	531,415
Working capital <sup>(3)</sup>	(26,391)	3,550	(7,496)	(21,342)	(8,456)
Total liabilities	643,016	658,214	666,272	652,998	664,870
Total equity	1,297,544	1,250,947	1,206,525	1,181,658	1,115,311

(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, bonds and derivative financial instruments.

## OTHER FINANCIAL DATA (UNAUDITED)

FOR THE YEARS ENDED 30 JUNE IN NZD 000	2011	2010	2009	2008	2007
Capital expenditure (accrual basis) <sup>(1)</sup>	139,554	138,994	132,178	119,465	81,416
Free cash inflows/(outflows) <sup>(2)</sup>	122,681	98,380	58,049	83,917	92,410

(1) This does not include assets purchased as part of the acquisition of OSB in 2010, "The Arts Channel" in 2009, Screen Enterprises Limited in 2008.

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

# FINANCIAL TRENDS STATEMENT

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

## TOTAL UHF, DBS AND OTHER SUBSCRIBERS

AS AT 30 JUNE	2011	2010	2009	2008	2007
<b>Subscribers - UHF:</b>					
Residential	-	-	22,772	31,134	53,679
Commercial	-	-	400	521	667
<b>Total UHF</b>	<b>-</b>	<b>-</b>	<b>23,172</b>	<b>31,655</b>	<b>54,346</b>
<b>Subscribers - DBS (Satellite):</b>					
Residential	675,221	659,233	623,564	578,016	529,830
Residential - wholesale <sup>(1)</sup>	124,712	118,403	111,260	120,170	113,961
Commercial	8,684	8,557	8,167	7,995	7,789
<b>Total DBS</b>	<b>808,617</b>	<b>786,193</b>	<b>742,991</b>	<b>706,181</b>	<b>651,580</b>
<b>Subscribers - Other:<sup>(2)</sup></b>	<b>20,804</b>	<b>16,204</b>	<b>12,739</b>	<b>10,740</b>	<b>5,285</b>
<b>Total subscribers</b>	<b>829,421</b>	<b>802,397</b>	<b>778,902</b>	<b>748,576</b>	<b>711,211</b>
<b>MY SKY subscribers<sup>(3)</sup></b>	<b>279,875</b>	<b>189,975</b>	<b>103,991</b>	-	-
Total number of households in New Zealand <sup>(4)</sup>	1,640,900	1,622,200	1,603,400	1,584,800	1,566,800
Percentage of households subscribing to the SKY network:					
Total UHF and DBS - residential	48.7%	47.9%	47.2%	46.0%	44.5%
Gross churn rate <sup>(5)</sup>	14.0%	13.9%	14.0%	14.9%	13.4%
Average monthly revenue per residential subscriber:					
UHF	n/a	30.82	37.24	38.83	39.68
DBS excluding wholesale	65.19	65.76	66.57	66.12	64.88
DBS and wholesale	61.78	55.51	53.30	52.15	50.88
MY SKY	84.79	84.61	78.02	n/a	n/a
Total UHF and DBS excluding wholesale	65.18	65.35	65.31	64.08	62.27
<b>Total UHF, DBS and MY SKY including wholesale</b>	<b>70.45</b>	<b>67.61</b>	<b>64.00</b>	<b>62.10</b>	<b>60.50</b>
Additional outlets					
UHF	-	-	12,086	18,953	24,400
Satellite	151,509	127,703	91,888	65,817	49,351
<b>Total</b>	<b>151,509</b>	<b>127,703</b>	<b>103,974</b>	<b>84,770</b>	<b>73,751</b>

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

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

(3) Included in total subscribers.

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

(5) 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.

# **DIRECTORS' RESPONSIBILITY STATEMENT**

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***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 2011 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.

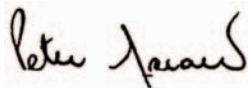
The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

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.

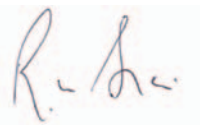
The directors have pleasure in presenting the financial statements of the Company and Group for the year ended 30 June 2011.

The board of directors of SKY Network Television Limited authorise these financial statements for issue on 25 August 2011.

For and on behalf of the board of directors



**Peter Macourt**  
Chairman



**Robert Bryden**  
Director

Date: 25 August 2011

# INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2011

IN NZD 000	Notes	Group		Company	
		30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
<b>Revenue</b>					
Residential satellite subscriptions		641,337	594,873	641,337	594,873
Other subscriptions		59,184	61,882	59,184	61,882
Installation		13,820	14,658	13,815	14,645
Advertising		62,691	53,714	62,691	53,714
Other income		19,916	16,709	11,450	11,490
		<b>796,948</b>	<b>741,836</b>	<b>788,477</b>	<b>736,604</b>
<b>Expenses</b>					
Programme rights		209,008	195,803	208,732	195,637
Programme operations		46,859	50,430	52,096	50,430
Subscriber management		65,884	60,169	63,015	57,265
Sales and marketing		40,892	39,161	40,368	38,579
Advertising		19,379	16,906	19,379	16,906
Broadcasting and infrastructure		72,667	74,541	72,542	74,416
Depreciation and amortisation	6	124,954	112,506	117,359	111,475
Corporate		20,584	17,326	20,498	17,238
		<b>600,227</b>	<b>566,842</b>	<b>593,989</b>	<b>561,946</b>
<b>Operating profit</b>		<b>196,721</b>	<b>174,994</b>	<b>194,488</b>	<b>174,658</b>
<b>Financial (expense)/income</b>					
Finance income		1,097	440	2,109	431
Finance expense		(26,427)	(31,414)	(24,935)	(31,414)
Realised exchange gain		319	1,053	316	1,053
Unrealised exchange gain		322	1,445	322	1,445
	7	(24,689)	(28,476)	(22,188)	(28,485)
<b>Profit before tax</b>		<b>172,032</b>	<b>146,518</b>	<b>172,300</b>	<b>146,173</b>
Income tax expense	8	51,706	43,497	51,977	43,469
<b>Profit after tax</b>		<b>120,326</b>	<b>103,021</b>	<b>120,323</b>	<b>102,704</b>
Attributable to equity holders of the Company		120,078	102,865	120,323	102,704
Non-controlling interest		248	156	-	-
		<b>120,326</b>	<b>103,021</b>	<b>120,323</b>	<b>102,704</b>
<b>Earnings per share</b>					
Basic and diluted earnings per share (cents)	9	30.86	26.43		

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# **STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 30 JUNE 2011**

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<b>IN NZD 000</b>	<b>Notes</b>	<b>Group</b>		<b>Company</b>	
		<b>30-Jun-11</b>	<b>30-Jun-10</b>	<b>30-Jun-11</b>	<b>30-Jun-10</b>
Profit for the year		120,326	103,021	120,323	102,704
<b>Other comprehensive income</b>					
Cash flow hedges, net of tax	22	(15,358)	(4,119)	(15,358)	(4,119)
<b>Other comprehensive income for the year net of income tax</b>		<b>(15,358)</b>	<b>(4,119)</b>	<b>(15,358)</b>	<b>(4,119)</b>
<b>Total comprehensive income for the year</b>		<b>104,968</b>	<b>98,902</b>	<b>104,965</b>	<b>98,585</b>
<b>Attributable to:</b>					
Equity holders of the Company		104,720	98,746	104,965	98,585
Non-controlling interest		248	156	-	-
		<b>104,968</b>	<b>98,902</b>	<b>104,965</b>	<b>98,585</b>

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# BALANCE SHEET

AS AT 30 JUNE 2011

IN NZD 000	Notes	Group		Company	
		30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
<b>Current assets</b>					
Cash and cash equivalents		11,434	25,565	8,657	25,162
Trade and other receivables	10	76,383	69,808	77,637	69,509
Programme rights inventory	11	34,650	40,606	34,650	40,606
Derivative financial instruments	19	2,331	4,542	2,331	4,542
		<u>124,798</u>	<u>140,521</u>	<u>123,275</u>	<u>139,819</u>
<b>Non-current assets</b>					
Property, plant and equipment	12	360,403	313,224	322,623	312,311
Other intangible assets	13	30,865	28,900	30,719	28,740
Shares in subsidiary companies	14	-	-	4,007	4,007
Related party advance	26	-	-	17,721	-
Goodwill	15	1,424,494	1,423,427	1,422,465	1,422,465
Derivative financial instruments	19	-	3,089	-	3,089
		<u>1,815,762</u>	<u>1,768,640</u>	<u>1,797,535</u>	<u>1,770,612</u>
<b>Total assets</b>		<b><u>1,940,560</u></b>	<b><u>1,909,161</u></b>	<b><u>1,920,810</u></b>	<b><u>1,910,431</u></b>
<b>Current liabilities</b>					
Borrowings	18	2,872	-	-	-
Trade and other payables	17	140,536	128,281	138,040	127,635
Income tax payable		8,322	4,148	9,495	4,134
Derivative financial instruments	19	15,892	8,036	15,892	8,036
		<u>167,622</u>	<u>140,465</u>	<u>163,427</u>	<u>139,805</u>
<b>Non-current liabilities</b>					
Borrowings	18	217,015	274,000	200,000	274,000
Bonds	18	198,416	198,117	198,416	198,117
Deferred tax	16	36,591	31,916	36,124	31,916
Derivative financial instruments	19	22,835	13,117	22,835	13,117
Provisions	20	537	599	537	599
		<u>475,394</u>	<u>517,749</u>	<u>457,912</u>	<u>517,749</u>
<b>TOTAL LIABILITIES</b>		<b><u>643,016</u></b>	<b><u>658,214</u></b>	<b><u>621,339</u></b>	<b><u>657,554</u></b>
<b>Equity</b>					
Share capital	21	577,403	577,403	577,403	577,403
Hedging reserve	22	(22,038)	(6,680)	(22,038)	(6,680)
Retained earnings	23	741,364	679,657	744,106	682,154
<b>Total equity attributable to equity holders of the Company</b>		<b><u>1,296,729</u></b>	<b><u>1,250,380</u></b>	<b><u>1,299,471</u></b>	<b><u>1,252,877</u></b>
Non-controlling interest		815	567	-	-
<b>Total equity</b>		<b><u>1,297,544</u></b>	<b><u>1,250,947</u></b>	<b><u>1,299,471</u></b>	<b><u>1,252,877</u></b>
<b>Total equity and liabilities</b>		<b><u>1,940,560</u></b>	<b><u>1,909,161</u></b>	<b><u>1,920,810</u></b>	<b><u>1,910,431</u></b>

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2011

### Attributable to owners of the parent

IN NZD 000	Notes	Share capital	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total equity
<b>GROUP</b>							
Balance at 1 July 2010		577,403	(6,680)	679,657	1,250,380	567	1,250,947
Profit for the year		-	-	120,078	120,078	248	120,326
Cash flow hedges, net of tax	22	-	(15,358)	-	(15,358)	-	(15,358)
<b>Total comprehensive income for the year</b>		-	<b>(15,358)</b>	<b>120,078</b>	<b>104,720</b>	<b>248</b>	<b>104,968</b>
Dividend paid	23	-	-	(58,371)	(58,371)	-	(58,371)
Supplementary dividends		-	-	(1,677)	(1,677)	-	(1,677)
Foreign investor tax credits		-	-	1,677	1,677	-	1,677
<b>Balance at 30 June 2011</b>		<b>577,403</b>	<b>(22,038)</b>	<b>741,364</b>	<b>1,296,729</b>	<b>815</b>	<b>1,297,544</b>
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)
<b>Total comprehensive income for the year</b>		-	<b>(4,119)</b>	<b>102,865</b>	<b>98,746</b>	<b>156</b>	<b>98,902</b>
Dividend paid	23	-	-	(54,480)	(54,480)	-	(54,480)
Supplementary dividends		-	-	(3,865)	(3,865)	-	(3,865)
Foreign investor tax credits		-	-	3,865	3,865	-	3,865
<b>Balance at 30 June 2010</b>		<b>577,403</b>	<b>(6,680)</b>	<b>679,657</b>	<b>1,250,380</b>	<b>567</b>	<b>1,250,947</b>
<b>COMPANY</b>							
Balance at 1 July 2010		577,403	(6,680)	682,154	1,252,877	-	1,252,877
Profit for the year		-	-	120,323	120,323	-	120,323
Cash flow hedges, net of tax	22	-	(15,358)	-	(15,358)	-	(15,358)
<b>Total comprehensive income for the year</b>		-	<b>(15,358)</b>	<b>120,323</b>	<b>104,965</b>	-	<b>104,965</b>
Dividend paid	23	-	-	(58,371)	(58,371)	-	(58,371)
Supplementary dividends		-	-	(1,677)	(1,677)	-	(1,677)
Foreign investor tax credits		-	-	1,677	1,677	-	1,677
<b>Balance at 30 June 2011</b>		<b>577,403</b>	<b>(22,038)</b>	<b>744,106</b>	<b>1,299,471</b>	-	<b>1,299,471</b>
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)
<b>Total comprehensive income for the year</b>		-	<b>(4,119)</b>	<b>102,704</b>	<b>98,585</b>	-	<b>98,585</b>
Dividend paid	23	-	-	(54,480)	(54,480)	-	(54,480)
Supplementary dividends		-	-	(3,865)	(3,865)	-	(3,865)
Foreign investor tax credits		-	-	3,865	3,865	-	3,865
<b>Balance at 30 June 2010</b>		<b>577,403</b>	<b>(6,680)</b>	<b>682,154</b>	<b>1,252,877</b>	-	<b>1,252,877</b>

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2011

IN NZD 000	Notes	Group		Company	
		30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
<b>Cash flows from operating activities</b>					
Cash was provided from:					
Customers		789,456	737,102	781,492	732,223
Interest received		400	439	1,413	429
		<u>789,856</u>	<u>737,541</u>	<u>782,905</u>	<u>732,652</u>
Cash was applied to:					
Suppliers and employees		(415,770)	(390,662)	(406,000)	(386,609)
Related parties		(42,348)	(56,665)	(53,939)	(56,665)
Interest paid		(25,987)	(32,786)	(24,500)	(32,785)
Income tax paid	8	(34,712)	(20,020)	(34,679)	(20,000)
		<u>(518,817)</u>	<u>(500,133)</u>	<u>(519,118)</u>	<u>(496,059)</u>
<b>Net cash from operating activities</b>		<b>271,039</b>	<b>237,408</b>	<b>263,787</b>	<b>236,593</b>
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment		123	73	123	73
Acquisition of property, plant, equipment and intangibles		(135,055)	(139,101)	(126,504)	(138,116)
Acquisition of business	27	(13,426)	-	-	-
<b>Net cash used in investing activities</b>		<b>(148,358)</b>	<b>(139,028)</b>	<b>(126,381)</b>	<b>(138,043)</b>
<b>Cash flows from financing activities</b>					
Repayment of borrowings - bank loan		(104,000)	(79,000)	(104,000)	(79,000)
Advances received - bank loan		30,000	50,000	30,000	50,000
Related party advance		-	-	(21,181)	-
Related party advance repayment		-	-	1,343	-
Payment of bank facility fees		(25)	(25)	(25)	(25)
Payment of finance lease liabilities		(2,739)	-	-	-
Dividends paid		(60,048)	(58,345)	(60,048)	(58,345)
<b>Net cash used in financing activities</b>		<b>(136,812)</b>	<b>(87,370)</b>	<b>(153,911)</b>	<b>(87,370)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(14,131)</b>	<b>11,010</b>	<b>(16,505)</b>	<b>11,180</b>
Cash and cash equivalents at beginning of year		25,565	14,555	25,162	13,982
<b>Cash and cash equivalents at end of year</b>		<b>11,434</b>	<b>25,565</b>	<b>8,657</b>	<b>25,162</b>



IN NZD 000	Notes	Group		Company	
		30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
<b>Reconciliation of operating cash flows with net profit</b>					
Profit after tax		120,326	103,021	120,323	102,704
<b>Plus/(less) non-cash items:</b>					
Depreciation and amortisation	6	124,954	112,506	117,359	111,475
Unrealised foreign exchange gain	7	(322)	(1,445)	(322)	(1,445)
Bad debts and movement in provision for doubtful debts	6	5,655	6,678	5,649	6,680
Amortisation of bond issue costs	7	299	299	299	299
Movement in deferred tax	8	11,045	16,692	10,152	16,692
Other non-cash items		1,190	860	1,018	860
<b>Items classified as investing activities:</b>					
(Gain)/loss on disposal of assets		32	(32)	32	(32)
<b>Movement in working capital items:</b>					
Increase in receivables		(8,771)	(5,966)	(8,135)	(5,567)
Increase in payables		4,730	3,337	4,323	3,475
Increase in provision for tax		5,946	6,783	7,134	6,777
Decrease/(increase) in programme rights		5,955	(5,325)	5,955	(5,325)
<b>Net cash from operating activities</b>		<b>271,039</b>	<b>237,408</b>	<b>263,787</b>	<b>236,593</b>

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# **NOTES TO THE FINANCIAL STATEMENTS**

## **FOR THE YEAR ENDED 30 JUNE 2011**

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### **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 2011 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.

On 9 July 2010 the Group through its subsidiary Outside Broadcasting Limited (OSB) acquired the assets and certain liabilities of On Site Broadcasting (NZ) Limited and OSB (NZ) Limited from Australian media company Prime Media Group.

These financial statements were authorised for issue by the Board on 25 August 2011.

### **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of preparation**

These financial statements are for the year ended 30 June 2011. 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 2011) 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 following are the new standards and amendments to standards which are effective for the first time for the financial year beginning 1 July 2010 and which are relevant to the Group. These amendments have not resulted in material accounting or disclosure changes for the Group.

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.

NZ IAS 39: Financial Instruments: Recognition and Measurement.

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Improvements to NZ Equivalents to IFRS (2010): effective 1 July 2010

NZ IFRS 3: Business Combinations

NZ IAS 27: Consolidated and Separate Financial Statements

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 and have not been early adopted:

NZ IFRS 7: Disclosures - Transfers of financial assets (Effective date periods beginning on or after 1 July 2011).

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

NZ IAS 12 (amendment): Income Tax-Deferred Tax: Recovery of Underlying Assets (Effective date periods beginning on or after 1 January 2012).

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

NZ IFRS 10: Consolidated Financial Statements (Effective date periods beginning on or after 1 January 2013).

NZ IFRS 11: Joint Arrangements (Effective date periods beginning on or after 1 January 2013).

NZ IFRS 12: Disclosure of Interests in Other Entities (Effective date periods beginning on or after 1 January 2013).

NZ IFRS 13: Fair Value Measurement (Effective date periods beginning on or after 1 January 2013).

FRS 44: New Zealand Additional Disclosures (Effective date periods beginning on or after 1 July 2011).

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. Acquisition related costs are expensed as incurred.

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# **NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

## **FOR THE YEAR ENDED 30 JUNE 2011**

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### **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 and 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.

### **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. The cost of additions to plant and other assets constructed by the Group consist of all appropriate costs of development, construction and installation, comprising material, labour, direct overhead and transport costs. For qualifying assets directly attributable interest costs incurred during the period required to complete and prepare the asset for its intended use are capitalised as part of the total cost. 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.

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## 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:

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Land	Nil
Leasehold improvements	5 - 50 years
Buildings	50 years
Studio and broadcasting equipment	2 - 10 years
Decoders and associated equipment	4 -5 years
Other plant and equipment	3- 10 years
Capitalised aerial and satellite dish installations	5 years

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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 10 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).

Direct costs associated with the development of broadcasting and business software for internal use are capitalised where project success is regarded as probable. Capitalised costs include external direct costs of materials and services consumed and direct payroll-related costs for employees (including contractors) directly associated with the project and interest costs incurred during the development stage of a project.

Software development costs recognised as assets are amortised over their estimated useful lives (three to five years).

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# **NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

## **FOR THE YEAR ENDED 30 JUNE 2011**

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### **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. 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 or 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.

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### **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.

### **Impairment**

The Group assesses at each balance date whether there is objective evidence, such as default or delinquency in payment, 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 such as default or delinquency in payments, 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.

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# **NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

## **FOR THE YEAR ENDED 30 JUNE 2011**

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### **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 price adjustments). For example, when hedging forecast purchases of programme right in foreign currency, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the programme rights. The deferred amounts are ultimately recognised in programme rights' expenses in the income statement. 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.

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.



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## **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 2011 and 30 June 2010 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.

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# **NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

## **FOR THE YEAR ENDED 30 JUNE 2011**

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### **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 the Group 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 other comprehensive income, in which case the tax expense is also recognised in other comprehensive income.

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.

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### 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 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	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.

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# **NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

## **FOR THE YEAR ENDED 30 JUNE 2011**

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### ***(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 \$175,000,000 (June 2010: \$101,000,000) 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 (on page 45).

The table (on page 45) 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.

### 3 FINANCIAL RISK MANAGEMENT *(continued)*

The information shown below relates to the Group only. Company information is not shown separately. The only material difference between the Company and the Group are the lease liabilities shown as a separate line item on the table below. These lease liabilities relate to OSB and are separately disclosed in Note 18.

IN NZD 000	Carrying amount	Contractual cash flows	Less than one year	1-2 years	2-5 years	> 5 years
<b>At 30 June 2011</b>						
<b>Non derivative financial liabilities</b>						
Secured bank loans (note 18)	200,000	(206,090)	(6,090)	(200,000)	-	-
Lease liabilities (note 18)	19,887	(23,761)	(4,170)	(4,170)	(15,421)	-
Bonds (note 18)	198,416	(243,003)	(8,120)	(8,120)	(24,360)	(202,403)
Trade and other payables (note 17)	83,623	(83,623)	(83,623)	-	-	-
<b>Derivative financial liabilities</b>						
Interest rate swaps (note 19)(1)	16,753	(36,417)	(8,477)	(7,590)	(16,380)	(3,970)
	<b>518,679</b>	<b>(592,894)</b>	<b>(110,480)</b>	<b>(219,880)</b>	<b>(56,161)</b>	<b>(206,373)</b>
<b>AT 30 JUNE 2010</b>						
<b>Non derivative financial liabilities</b>						
Secured 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)	-	-	-
<b>Derivative financial instruments</b>						
Interest rate swaps (note 19)(1)	16,826	(32,430)	(6,905)	(5,795)	(13,097)	(6,633)
	<b>565,464</b>	<b>(651,802)</b>	<b>(100,625)</b>	<b>(22,994)</b>	<b>(311,157)</b>	<b>(217,026)</b>

Trade and other payables (note 17) includes unearned subscriptions and deferred revenues totalling \$56,913,000 (2010: \$51,760,000) 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.

# NOTES TO THE FINANCIAL STATEMENTS <sup>(continued)</sup>

## FOR THE YEAR ENDED 30 JUNE 2011

### 3 FINANCIAL RISK MANAGEMENT <sup>(continued)</sup>

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
<b>AT 30 JUNE 2011</b>						
Forward foreign exchange contracts						
Outflow (at FX hedge rate)						
USD			(179,787)	(104,034)	(60,754)	(14,999)
AUD			(68,862)	(68,862)	-	-
JPY			(3,404)	(3,404)	-	-
EUR			(1,969)	(1,969)	-	-
Inflow (at year end market rate)						
USD	0.8297	127,933	154,192	89,505	51,420	13,267
AUD	0.7727	54,275	70,241	70,241	-	-
JPY	66.6913	208,393	3,125	3,125	-	-
EUR	0.5724	1,117	1,951	1,951	-	-
			<b>(24,513)</b>	<b>(13,447)</b>	<b>(9,334)</b>	<b>(1,732)</b>
<b>AT 30 JUNE 2010</b>						
Forward foreign exchange contracts						
Outflow (at FX hedge rate)						
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 (at year end market rate)						
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	-	-
			<b>(2,378)</b>	<b>(1,027)</b>	<b>(765)</b>	<b>(586)</b>

### 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 2010.

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:

IN NZD 000	Group	
	30-Jun-11	30-Jun-10
Debt <i>(note 18)</i>	418,303	472,117
Cash and cash equivalents	(11,434)	(25,565)
Net debt	406,869	446,552
Equity	1,297,544	1,250,947
Net debt to equity ratio	31%	36%

The Group is subject to externally imposed debt limits which it has complied with for the entire year reported (2010: complied).

#### Fair value estimation

The methods used to estimate the fair value of financial instruments are as follows:

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.

IN NZD 000	Level 2 Group and company	
	30-Jun-11	30-Jun-10
<b>Assets measured at fair value</b>		
<b>Financial assets at fair value through profit or loss</b>		
Trading derivatives - dedesignated or not hedge accounted	1,148	1,445
Derivatives used for hedging - cash flow hedges	1,183	6,186
<b>Total assets</b> <i>(note 19)</i>	<b>2,331</b>	<b>7,631</b>

# NOTES TO THE FINANCIAL STATEMENTS <sup>(continued)</sup>

## FOR THE YEAR ENDED 30 JUNE 2011

### 3 FINANCIAL RISK MANAGEMENT <sup>(continued)</sup>

IN NZD 000	Level 2 Group and company	
	30-Jun-11	30-Jun-10
<b>Financial liabilities at fair value through profit or loss</b>		
Trading derivatives - dedesignated or not hedge accounted	(3,898)	(2,554)
Derivatives used for hedging - cash flow hedges	(34,829)	(18,599)
<b>Total liabilities</b> <sup>(note 19)</sup>	<b>(38,727)</b>	<b>(21,153)</b>

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-11		30-Jun-10		30-Jun-11		30-Jun-10	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>								
<b>Loans and receivables</b>								
Cash and cash equivalents	11,434	11,434	25,565	25,565	8,657	8,657	25,162	25,162
Trade and other receivables <sup>(note 10)</sup>	66,606	66,606	60,769	60,769	68,182	68,182	60,810	60,810
Related party advance <sup>(note 26)</sup>	-	-	-	-	19,839	21,578	-	-
<b>Total assets</b>	<b>78,040</b>	<b>78,040</b>	<b>86,334</b>	<b>86,334</b>	<b>96,678</b>	<b>98,417</b>	<b>85,972</b>	<b>85,972</b>
<b>Financial liabilities held at amortised cost</b>								
Borrowings <sup>(note 18)</sup>	200,000	196,881	274,000	254,000	200,000	196,881	274,000	254,000
Lease liabilities <sup>(note 18)</sup>	19,887	20,066	-	-	-	-	-	-
Bond <sup>(note 18)</sup>	198,416	185,000	198,117	178,000	198,416	185,000	198,117	178,000
Trade and other payables <sup>(note 17)</sup>	83,623	83,623	76,521	76,521	81,228	81,228	75,969	75,969
<b>Total liabilities</b>	<b>501,926</b>	<b>485,570</b>	<b>548,638</b>	<b>508,521</b>	<b>479,644</b>	<b>463,109</b>	<b>548,086</b>	<b>507,969</b>

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 and lease liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.



#### 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 \$1,424 million (30 June 2010: \$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

IN NZD 000	Group		Company	
	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
<b>Depreciation and amortisation</b>				
Depreciation of property, plant and equipment (note 12)	114,252	102,091	106,833	101,254
Amortisation of intangibles (note 13)	10,702	10,415	10,526	10,221
<b>Total depreciation and amortisation</b>	<b>124,954</b>	<b>112,506</b>	<b>117,359</b>	<b>111,475</b>
<b>Bad and doubtful debts</b>				
Movement in provision	405	1,735	398	1,737
Net write-off	5,250	4,943	5,251	4,943
<b>Total bad and doubtful debts (note 10)</b>	<b>5,655</b>	<b>6,678</b>	<b>5,649</b>	<b>6,680</b>
<b>Fees paid to auditors</b>				
Audit fees paid to principal auditors	189	174	181	167
<b>Other assurance services by principal auditors</b>				
IT assurance services	28	168	28	168
Audit of regulatory returns	6	5	6	5
Greenhouse gas inventory review	11	21	11	21
Assurance services - subscriber returns	20	-	20	-
<b>Total fees to auditors</b>	<b>254</b>	<b>368</b>	<b>246</b>	<b>361</b>
<b>Donations</b>	<b>491</b>	<b>35</b>	<b>491</b>	<b>35</b>
<b>Employee costs</b>	<b>76,460</b>	<b>67,222</b>	<b>73,320</b>	<b>65,801</b>
<b>Directors' fees</b>	<b>489</b>	<b>476</b>	<b>489</b>	<b>476</b>
<b>Operating lease and rental expenses</b>	<b>34,157</b>	<b>32,986</b>	<b>33,382</b>	<b>32,917</b>

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## FOR THE YEAR ENDED 30 JUNE 2011

### 7 FINANCIAL INCOME/(EXPENSE)

IN NZD 000	Group		Company	
	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
<b>Finance income</b>				
Interest income	397	440	1,409	431
Interest rate swaps - fair value gains	700	-	700	-
	<b>1,097</b>	<b>440</b>	<b>2,109</b>	<b>431</b>
<b>Finance expense</b>				
Interest expense on bank loans	(15,242)	(17,622)	(15,242)	(17,622)
Interest expense on bond	(9,133)	(11,162)	(9,133)	(11,162)
Interest rate swaps - fair value loss	-	(1,894)	-	(1,894)
Finance lease interest	(1,492)	-	-	-
Amortisation of bond costs	(299)	(299)	(299)	(299)
Bank facility finance fees	(261)	(437)	(261)	(437)
<b>Total interest expense</b>	<b>(26,427)</b>	<b>(31,414)</b>	<b>(24,935)</b>	<b>(31,414)</b>
Unrealised exchange gain/(loss) - foreign currency payables	1,082	(1,138)	1,082	(1,138)
Unrealised exchange gain/(loss) - foreign currency hedges	(760)	2,582	(760)	2,582
Realised exchange loss - foreign currency payables	(2,676)	(4,277)	(2,679)	(4,277)
Realised exchange gain - foreign currency hedges	2,995	5,331	2,995	5,331
	<b>(24,689)</b>	<b>(28,476)</b>	<b>(22,188)</b>	<b>(28,485)</b>

During the year interest of \$378,000 (2010:\$300,000) 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:

IN NZD 000	Group		Company	
	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
<b>Profit before tax</b>	<b>172,032</b>	<b>146,518</b>	<b>172,300</b>	<b>146,173</b>
Prima facie tax expense at 30%(2010: 30%)	51,610	43,955	51,690	43,852
Non deductible expenses	319	156	318	156
Prior year adjustment	13	121	13	121
Adjustment for change to building depreciation rates (note 16)	-	2,500	-	2,500
Change in tax rate (note 16)	(100)	(3,158)	(44)	(3,158)
Other	(136)	(77)	-	(2)
<b>Income tax expense</b>	<b>51,706</b>	<b>43,497</b>	<b>51,977</b>	<b>43,469</b>
<b>Allocated between</b>				
Current tax payable	40,661	26,805	41,825	26,777
Deferred tax (note 16)	11,045	16,692	10,152	16,692
<b>Income tax expense</b>	<b>51,706</b>	<b>43,497</b>	<b>51,977</b>	<b>43,469</b>

The deferred tax charge includes the effect of the future tax rate change from 30% to 28% of \$100,000 (2010: \$3,158,000).

## 8 INCOME TAX EXPENSE (continued)

IN NZD 000	Group		Company	
	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
<b>Imputation credit account</b>				
Balance at beginning of the year	47,551	50,475	47,505	50,449
Tax payments	35,033	20,020	35,000	20,000
Tax refund received	(321)	-	(321)	-
Credits attached to dividends paid	(23,339)	(22,968)	(23,339)	(22,968)
Other	(2)	24	3	24
<b>Balance at end of year</b>	<b>58,922</b>	<b>47,551</b>	<b>58,848</b>	<b>47,505</b>

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	
	30-Jun-11	30-Jun-10
Profit after tax (NZD 000)	120,078	102,865
Weighted average number of ordinary shares on issue (thousands)	389,140	389,140
Basic earnings per share (cents)	30.86	26.43

### 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 had no dilutive potential ordinary shares during the current or prior period.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## FOR THE YEAR ENDED 30 JUNE 2011

### 10 TRADE AND OTHER RECEIVABLES

IN NZD 000	Group		Company	
	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
Trade receivables	68,009	62,343	67,493	62,223
Less provision for impairment of receivables	(4,118)	(3,716)	(4,107)	(3,712)
<b>Trade receivables - net</b>	<b>63,891</b>	<b>58,627</b>	<b>63,386</b>	<b>58,511</b>
Receivable from group subsidiaries (note 26)	-	-	330	367
Current portion of advance to subsidiary (note 26)	-	-	2,118	-
Other receivables	2,715	2,142	2,348	1,932
Prepaid expenses	9,777	9,039	9,455	8,699
<b>Balance at end of year</b>	<b>76,383</b>	<b>69,808</b>	<b>77,637</b>	<b>69,509</b>
Deduct prepaid expenses	(9,777)	(9,039)	(9,455)	(8,699)
<b>Balance financial instruments</b> (note 28)	<b>66,606</b>	<b>60,769</b>	<b>68,182</b>	<b>60,810</b>

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:

IN NZD 000	Group			
	Gross 30-Jun-11	Impairment	Gross 30-Jun-10	Impairment
Residential subscribers	46,894	3,736	44,850	3,036
Commercial subscribers	3,779	18	3,638	43
Wholesale customers	7,212	-	4,340	-
Advertising	6,026	123	6,508	446
Commercial music	155	11	120	4
Other	3,943	230	2,887	187
	<b>68,009</b>	<b>4,118</b>	<b>62,343</b>	<b>3,716</b>

## 10 TRADE AND OTHER RECEIVABLES (continued)

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

IN NZD 000	30-Jun-11			30-Jun-10		
	Neither past due nor impaired	Past due not impaired	Impaired	Neither past due nor impaired	Past due not impaired	Impaired
Not past due	53,213	-	-	49,044	-	-
Past due 0-30 days	-	7,581	76	-	6,844	50
Past due 31-60 days	-	2,367	8	-	2,048	27
Past due 61-90 days	-	730	852	-	573	1,005
Greater than 90 days	-	-	3,182	-	118	2,634
	<b>53,213</b>	<b>10,678</b>	<b>4,118</b>	<b>49,044</b>	<b>9,583</b>	<b>3,716</b>

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:

IN NZD 000	Group	
	30-Jun-11	30-Jun-10
Opening balance	3,716	1,981
Charged during the year (note 6)	5,655	6,678
Utilised during the year	(5,253)	(4,943)
<b>Closing balance</b>	<b>4,118</b>	<b>3,716</b>

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

IN NZD 000	Group and Company	
	30-Jun-11	30-Jun-10
Cost	82,211	86,890
Less amortisation	(47,561)	(46,284)
<b>Balance at end of year</b>	<b>34,650</b>	<b>40,606</b>

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## FOR THE YEAR ENDED 30 JUNE 2011

### 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
<b>GROUP</b>						
<b>Cost</b>						
Balance 1 July 2010	44,937	129,713	439,421	406,508	29,428	1,050,007
Acquisition of subsidiary (note 27)	-	28,804	-	-	5,896	34,700
Additions	3,748	6,796	49,505	50,499	16,339	126,887
Disposals	(204)	(15,006)	(3,480)	(17)	(2,455)	(21,162)
<b>Balance at 30 June 2011</b>	<b>48,481</b>	<b>150,307</b>	<b>485,446</b>	<b>456,990</b>	<b>49,208</b>	<b>1,190,432</b>
<b>Accumulated depreciation</b>						
Balance 1 July 2010	8,674	79,342	339,806	286,413	22,548	736,783
Depreciation for the year	1,767	21,518	40,440	45,408	5,119	114,252
Disposals	(75)	(14,982)	(3,480)	(17)	(2,452)	(21,006)
<b>Balance at 30 June 2011</b>	<b>10,366</b>	<b>85,878</b>	<b>376,766</b>	<b>331,804</b>	<b>25,215</b>	<b>830,029</b>
<b>Net book value 30 June 2011</b>	<b>38,115</b>	<b>64,429</b>	<b>108,680</b>	<b>125,186</b>	<b>23,993</b>	<b>360,403</b>
<b>Cost</b>						
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)
<b>Balance at 30 June 2010</b>	<b>44,937</b>	<b>129,713</b>	<b>439,421</b>	<b>406,508</b>	<b>29,428</b>	<b>1,050,007</b>
<b>Accumulated depreciation</b>						
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)
<b>Balance at 30 June 2010</b>	<b>8,674</b>	<b>79,342</b>	<b>339,806</b>	<b>286,413</b>	<b>22,548</b>	<b>736,783</b>
<b>Net book value 30 June 2010</b>	<b>36,263</b>	<b>50,371</b>	<b>99,615</b>	<b>120,095</b>	<b>6,880</b>	<b>313,224</b>

**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
<b>COMPANY</b>						
<b>Cost</b>						
Balance 1 July 2010	44,937	129,693	439,421	406,508	26,048	1,046,607
Additions	3,748	6,796	49,505	50,499	6,752	117,300
Disposals	(204)	(15,006)	(3,480)	(17)	(1,984)	(20,691)
<b>Balance at 30 June 2011</b>	<b>48,481</b>	<b>121,483</b>	<b>485,446</b>	<b>456,990</b>	<b>30,816</b>	<b>1,143,216</b>
<b>Accumulated depreciation</b>						
Balance 1 July 2010	8,674	79,330	339,806	286,413	20,073	734,296
Depreciation for the year	1,767	16,231	40,440	45,408	2,987	106,833
Disposals	(75)	(14,982)	(3,480)	(17)	(1,982)	(20,536)
<b>Balance at 30 June 2011</b>	<b>10,366</b>	<b>80,579</b>	<b>376,766</b>	<b>331,804</b>	<b>21,078</b>	<b>820,593</b>
<b>Net book value 30 June 2011</b>	<b>38,115</b>	<b>40,904</b>	<b>108,680</b>	<b>125,186</b>	<b>9,738</b>	<b>322,623</b>
<b>Cost</b>						
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	123,383
Disposals	(10)	(3,179)	(21,720)	(4,991)	(246)	(30,146)
<b>Balance at 30 June 2010</b>	<b>44,937</b>	<b>129,693</b>	<b>439,421</b>	<b>406,508</b>	<b>26,048</b>	<b>1,046,607</b>
<b>Accumulated depreciation</b>						
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	101,253
Disposals	(3)	(3,178)	(21,708)	(4,991)	(237)	(30,117)
<b>Balance at 30 June 2010</b>	<b>8,674</b>	<b>79,330</b>	<b>339,806</b>	<b>286,413</b>	<b>20,073</b>	<b>734,296</b>
<b>Net book value 30 June 2010</b>	<b>36,263</b>	<b>50,363</b>	<b>99,615</b>	<b>120,095</b>	<b>5,975</b>	<b>312,311</b>

In the prior year 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 2011 includes land with a cost of \$4,986,000 (30 June 2010: \$4,986,000).

The total value of work in progress at 30 June 2011 was \$8,689,000 (30 June 2010: \$333,000). This relates to the fitout of the new HD broadcasting truck commissioned by OSB and is included in broadcasting equipment and other plant and equipment. The prior year work in progress relates to the upgrade of the broadcasting operations which is now complete. Additions in the current year to property, plant and equipment includes \$228,000 of interest capitalised at an average borrowing rate of 5.56% (30 June 2010: \$200,000) and \$121,000 of capitalised labour costs (30 June 2010: nil).

The net book value of assets subject to finance leases totals \$18,555,000 of which \$16,726,000 is included in broadcasting and studio equipment and \$1,829,000 is included in other plant and equipment. There were no assets subject to finance leases in the prior period.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## FOR THE YEAR ENDED 30 JUNE 2011

### 13 OTHER INTANGIBLE ASSETS

IN NZD 000	Software	Broadcasting rights	Renewal rights	Other intangibles	Total
<b>GROUP</b>					
<b>Cost</b>					
Balance 1 July 2010	43,739	5,447	37,088	3,168	89,442
Additions	12,667	-	-	-	12,667
Disposals	(471)	-	-	(1)	(472)
<b>Balance at 30 June 2011</b>	<b>55,935</b>	<b>5,447</b>	<b>37,088</b>	<b>3,167</b>	<b>101,637</b>
<b>Accumulated amortisation</b>					
Balance 1 July 2010	24,681	137	33,408	2,316	60,542
Amortisation for the year	6,736	539	3,032	395	10,702
Disposals	(471)	-	-	(1)	(472)
<b>Balance at 30 June 2011</b>	<b>30,946</b>	<b>676</b>	<b>36,440</b>	<b>2,710</b>	<b>70,772</b>
<b>Net book value 30 June 2011</b>	<b>24,989</b>	<b>4,771</b>	<b>648</b>	<b>457</b>	<b>30,865</b>
<b>Cost</b>					
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)
<b>Balance at 30 June 2010</b>	<b>43,739</b>	<b>5,447</b>	<b>37,088</b>	<b>3,168</b>	<b>89,442</b>
<b>Accumulated amortisation</b>					
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)
<b>Balance at 30 June 2010</b>	<b>24,681</b>	<b>137</b>	<b>33,408</b>	<b>2,316</b>	<b>60,542</b>
<b>Net book value 30 June 2010</b>	<b>19,058</b>	<b>5,310</b>	<b>3,680</b>	<b>852</b>	<b>28,900</b>

IN NZD 000	Software	Broadcasting rights	Renewal rights	Other intangibles	Total
<b>COMPANY</b>					
<b>Cost</b>					
Balance 1 July 2010	43,380	5,447	37,088	2,536	88,451
Additions	12,505	-	-	-	12,505
Disposals	(471)	-	-	-	(471)
<b>Balance at 30 June 2011</b>	<b>55,414</b>	<b>5,447</b>	<b>37,088</b>	<b>2,536</b>	<b>100,485</b>
<b>Accumulated amortisation</b>					
Balance 1 July 2010	24,392	137	33,408	1,774	59,711
Amortisation for the year	6,648	539	3,032	307	10,526
Disposals	(471)	-	-	-	(471)
<b>Balance at 30 June 2011</b>	<b>30,569</b>	<b>676</b>	<b>36,440</b>	<b>2,081</b>	<b>69,766</b>
<b>Net book value 30 June 2011</b>	<b>24,845</b>	<b>4,771</b>	<b>648</b>	<b>455</b>	<b>30,719</b>



### 13 OTHER INTANGIBLE ASSETS (continued)

IN NZD 000	Software	Broadcasting rights	Renewal rights	Other intangibles	Total
<b>COMPANY</b>					
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)
<b>Balance at 30 June 2010</b>	<b>43,380</b>	<b>5,447</b>	<b>37,088</b>	<b>2,536</b>	<b>88,451</b>
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)
<b>Balance at 30 June 2010</b>	<b>24,392</b>	<b>137</b>	<b>33,408</b>	<b>1,774</b>	<b>59,711</b>
<b>Net book value 30 June 2010</b>	<b>18,988</b>	<b>5,310</b>	<b>3,680</b>	<b>762</b>	<b>28,740</b>

Additions in the current year to software includes \$150,000 of interest capitalised at an average borrowing rate of 5.56% (30 June 2010: \$100,000) and \$881,000 of capitalised labour costs (30 June 2010 \$ nil).

### 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	
			2011	2010
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 27)	Broadcasting services	SKY	100.00%	100.00%
Screen Enterprises Limited	On-line DVD rental	SKY	51.00%	51.00%

IN NZD 000	Company	
	30-Jun-11	30-Jun-10
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 27).

# NOTES TO THE FINANCIAL STATEMENTS <sup>(continued)</sup>

## FOR THE YEAR ENDED 30 JUNE 2011

### 15 GOODWILL

IN NZD 000	Group		Company	
	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
Balance at beginning of year	1,423,427	1,423,427	1,422,465	1,422,465
Acquisition of OSB (refer note 27)	1,067	-	-	-
<b>Balance at end of year</b>	<b>1,424,494</b>	<b>1,423,427</b>	<b>1,422,465</b>	<b>1,422,465</b>

#### 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	-	-
Acquisition of OSB	1,067	-	-	-
	<b>1,424,494</b>	<b>1,423,427</b>	<b>1,422,465</b>	<b>1,422,465</b>

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 (2010: 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-11	30-Jun-10
Customer churn rates	13.4%-10.9%	12.5% -11.2%
Net gain in customer numbers (excl. churn)	25,000 - 40,684	30,100
Pre tax discount rate	12.2%	12.2%
USD FX rate	0.73-0.65	0.68-0.63
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 reasonably possible change in any of the key assumptions would cause the carrying value of goodwill to exceed its recoverable amount.

## 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	Leased assets	Other <sup>(1)</sup>	Hedges through equity	Total
<b>GROUP</b>					
<b>For the year ended 30 June 2011</b>					
At 1 July 2010	(22,715)	(16,056)	4,229	2,626	(31,916)
Acquisition of subsidiary (note 27)	-	426	-	-	426
NZ IAS 39 hedging adjustment credited direct to equity (note 22)	-	-	-	6,391	6,391
Effect of tax rate change from 30% to 28% charged direct to equity (note 22)	-	-	-	(447)	(447)
Credited/(charged) to income statement <sup>(1)</sup> (note 8)	(7,364)	(4,083)	302	-	(11,145)
Effect of tax rate change from 30% to 28% <sup>(1)</sup> (note 8)	(198)	530	(232)	-	100
<b>Balance at 30 June 2011</b>	<b>(30,277)</b>	<b>(19,183)</b>	<b>4,299</b>	<b>8,570</b>	<b>(36,591)</b>
Deferred tax reversing within 12 months	(4,486)	(2,587)	4,381	3,091	399
Deferred tax to be recovered after more than 12 months	(25,791)	(16,596)	(82)	5,479	(36,990)
	<b>(30,277)</b>	<b>(19,183)</b>	<b>4,299</b>	<b>8,570</b>	<b>(36,591)</b>

(1) The net charge to the income statement in the current year is \$11,045,000 (refer note 8).

## COMPANY

### For the year ended 30 June 2011

At 1 July 2010	(22,715)	(16,056)	4,229	2,626	(31,916)
NZ IAS 39 hedging adjustment credited direct to equity (note 22)	-	-	-	6,391	6,391
Effect of tax rate change from 30% to 28% charged direct to equity (note 22)	-	-	-	(447)	(447)
Credited/(charged) to income statement (note 8)	(6,477)	(3,975)	256	-	(10,196)
Effect of tax rate change from 30% to 28% <sup>(1)</sup> (note 8)	(257)	530	(229)	-	44
<b>Balance at 30 June 2011</b>	<b>(29,449)</b>	<b>(19,501)</b>	<b>4,256</b>	<b>8,570</b>	<b>(36,124)</b>
Deferred tax reversing within 12 months	(5,315)	(2,684)	4,338	3,091	(570)
Deferred tax to be recovered after more than 12 months	(24,134)	(16,817)	(82)	5,479	(35,554)
	<b>(29,449)</b>	<b>(19,501)</b>	<b>4,256</b>	<b>8,570</b>	<b>(36,124)</b>

(1) The net charge to the income statement in the current year is \$10,152,000 (refer note 8).

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## FOR THE YEAR ENDED 30 JUNE 2011

### 16 DEFERRED TAX (continued)

IN NZD 000	Fixed assets	Leased assets	Other <sup>(1)</sup>	Hedges through equity	Total
<b>GROUP AND COMPANY</b>					
<b>For the year ended 30 June 2010</b>					
At 1 July 2009	(11,211)	(12,540)	5,901	1,097	(16,753)
NZ IAS 39 hedging adjustment credited direct to equity <small>(note 22)</small>	-	-	-	1,694	1,694
Effect of tax rate change from 30% to 28% charged direct to equity <small>(note 22)</small>	-	-	-	(165)	(165)
Credited/(charged) to income statement <small>(note 8)</small>	(11,301)	(4,378)	(1,671)	-	(17,350)
Adjustment for change to building depreciation rates <sup>(1)</sup> <small>(note 8)</small>	(2,500)	-	-	-	(2,500)
Effect of tax rate change from 30% to 28% <sup>(1)</sup> <small>(note 8)</small>	2,297	862	(1)	-	3,158
<b>Balance at 30 June 2010</b>	<b>(22,715)</b>	<b>(16,056)</b>	<b>4,229</b>	<b>2,626</b>	<b>(31,916)</b>
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)
	<b>(22,715)</b>	<b>(16,056)</b>	<b>4,229</b>	<b>2,626</b>	<b>(31,916)</b>

<sup>(1)</sup>The net charge to the income statement in the prior year was \$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 prior 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 of \$2,500,000 which was recognised in the tax expense in the prior year (refer note 8).

## 17 TRADE AND OTHER PAYABLES

IN NZD 000	Group		Company	
	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
Trade payables	49,105	45,758	48,609	45,345
Due to related parties (note 26)	3,406	4,757	3,846	4,757
Unearned subscriptions	55,049	51,612	54,948	51,518
Employee entitlements	9,545	8,236	9,180	8,132
Deferred revenue	1,864	148	1,864	148
Accruals	21,567	17,770	19,593	17,735
<b>Balance at end of year</b>	<b>140,536</b>	<b>128,281</b>	<b>138,040</b>	<b>127,635</b>
<b>Less</b>				
Deferred revenue	(1,864)	(148)	(1,864)	(148)
Unearned subscriptions	(55,049)	(51,612)	(54,948)	(51,518)
<b>Balance financial instruments (note 28)</b>	<b>83,623</b>	<b>76,521</b>	<b>81,228</b>	<b>75,969</b>

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

## 18 BORROWINGS

IN NZD 000	30-Jun-11			30-Jun-10		
	GROUP	Current	Non current	Total	Current	Non current
Lease liabilities	2,872	17,015	19,887	-	-	-
Bank loans	-	200,000	200,000	-	274,000	274,000
Bonds	-	198,416	198,416	-	198,117	198,117
	<b>2,872</b>	<b>415,431</b>	<b>418,303</b>	<b>-</b>	<b>472,117</b>	<b>472,117</b>

IN NZD 000	30-Jun-11			30-Jun-10		
	COMPANY	Current	Non current	Total	Current	Non current
Bank Loans	-	200,000	200,000	-	274,000	274,000
Bonds	-	198,416	198,416	-	198,117	198,117
	<b>-</b>	<b>398,416</b>	<b>398,416</b>	<b>-</b>	<b>472,117</b>	<b>472,117</b>

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

Repayment Terms	Group		Company	
	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
Less than one year	2,872	-	-	-
Between one and five years	217,015	274,000	200,000	274,000
More than five years	198,416	198,117	198,416	198,117
	<b>418,303</b>	<b>472,117</b>	<b>398,416</b>	<b>472,117</b>

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## FOR THE YEAR ENDED 30 JUNE 2011

### 18 BORROWINGS (continued)

#### Bank loans

In June 2005 SKY arranged an NZD 610 million negative pledge five year revolving credit bank 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 \$200 million at 30 June 2011 (30 June 2010: \$274 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.

On June 30 2011 SKY negotiated an NZD 400 million negative pledge five year revolving credit bank facility from a syndicate of banks comprising ANZ National Bank Limited, Bank of New Zealand, Commonwealth Bank of Australia and Westpac Bank. The loan is to replace SKY's current loan facility and the first drawdown date is expected to be 16 September 2011. Interest is charged on drawings under the facility at a rate between 1.80% and 2.5% per annum above the average bid rate for the purchase of bank accepted bills of exchange. There is a commitment fee payable on the undrawn balance of the facility of between 0.9% and 1.25% per annum. There are no required repayment tranches of the facility. The facility can be partially or fully cancelled at SKY's discretion.

This facility includes a market disruption clause which means the banks have no obligation to lend should there be circumstances that prevent the banks funding in the New Zealand domestic interbank market.

#### Fair values

The fair value of the variable rate bank loans at 30 June 2011 was \$196.9 million (30 June 2010: \$254.0 million). The difference from carrying value at 30 June 2011 and 30 June 2010 reflects the increase in market margins 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-11	30-Jun-10
<b>Bonds</b>		
Nominal interest rate	4.06%	4.01%
Date of maturity	16-Oct-16	16-Oct-16
<b>IN NZD 000</b>		
Carrying amount	198,416	198,117
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 2011 was 5.85% (30 June 2010: 6.24%). The fair value of the bonds at 30 June 2011 was \$185 million (30 June 2010 \$178 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.

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## 18 BORROWINGS (continued)

### Lease liabilities

As at 30 June 2011 borrowings included the lease liabilities taken over as part of the purchase of the net assets acquired from On Site Broadcasting (NZ) Limited. The Group's obligations under finance leases are secured by the lessors' title to the leased assets. The lease term is for 5 years.

Lease liabilities present value	30-Jun-11
IN NZD 000	
Current	2,872
Non-current	17,015
	<b>19,887</b>
<b>Repayment terms</b>	
<b>Finance lease liabilities - minimum lease payments</b>	
Within one year	4,143
One to five years	11,969
Residual value	7,547
	<b>23,659</b>
Future finance charges on finance leases	(3,772)
<b>Present value of finance lease liabilities</b>	<b>19,887</b>
<b>The present value of lease liabilities is as follows:</b>	
Within one year	4,099
One to five years	15,788
	<b>19,887</b>

Interest paid in the current period includes \$1,493,000 relating to finance leases. The effective interest rate is 6.8%.

The fair value of the finance lease liabilities at 30 June 2011 was \$20.1 million. The difference between carrying amount and fair value has not been recognised in the financial statements as the lease liabilities are intended to be held until maturity. The lease liabilities are secured over the assets of OSB.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## FOR THE YEAR ENDED 30 JUNE 2011

### 19 DERIVATIVE FINANCIAL INSTRUMENTS

IN NZD 000	Group and Company			Group and Company		
	30-Jun-11			30-Jun-10		
	Assets	Liabilities	Notional amounts	Assets	Liabilities	Notional amounts
Interest rate hedges and collars - cash flow	-	(16,069)	325,000	398	(15,295)	330,000
Interest rate hedges - fair value	722	(684)	20,000	369	(1,531)	60,000
<b>Total interest rate hedges</b>	<b>722</b>	<b>(16,753)</b>	<b>345,000</b>	<b>767</b>	<b>(16,826)</b>	<b>390,000</b>
Forward foreign exchange contracts - cash flow hedges	1,182	(18,761)	218,303	5,788	(3,304)	213,861
Forward foreign exchange contracts - fair value	427	(3,213)	35,717	1,076	(1,023)	42,330
<b>Total forward foreign exchange hedges</b>	<b>1,609</b>	<b>(21,974)</b>	<b>254,020</b>	<b>6,864</b>	<b>(4,327)</b>	<b>256,191</b>
	<b>2,331</b>	<b>(38,727)</b>	<b>599,020</b>	<b>7,631</b>	<b>(21,153)</b>	<b>646,191</b>
Analysed as:						
Current	2,331	(15,892)	248,267	4,542	(8,036)	305,267
Non-current	-	(22,835)	350,753	3,089	(13,117)	340,924
	<b>2,331</b>	<b>(38,727)</b>	<b>599,020</b>	<b>7,631</b>	<b>(21,153)</b>	<b>646,191</b>
Derivatives used for hedging - cash flow <small>(note 28)</small>	1,182	(34,830)	543,303	6,186	(18,599)	543,861
At fair value through profit and loss - fair value <small>(note 28)</small>	1,149	(3,897)	55,717	1,445	(2,554)	102,330
	<b>2,331</b>	<b>(38,727)</b>	<b>599,020</b>	<b>7,631</b>	<b>(21,153)</b>	<b>646,191</b>

#### Exchange rates

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

	30-Jun-11	30-Jun-10
USD	0.8297	0.6943
AUD	0.7727	0.8120
GBP	0.5161	0.4612
EURO	0.5724	0.5675
JPY	66.6913	61.5497

#### 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 2011 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 \$2,331,000 (2010:\$7,631,000).



## 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:

IN NZD 000	30-Jun-11			30-Jun-10		
	USD	AUD	OTHER	USD	AUD	OTHER
Foreign currency payables	(23,645)	(7,589)	(249)	(25,332)	(8,161)	(842)
De-designated forward exchange contracts	24,161	9,848	1,708	24,507	17,429	394
<b>Net balance sheet exposure</b>	<b>516</b>	<b>2,259</b>	<b>1,459</b>	<b>(825)</b>	<b>9,268</b>	<b>(448)</b>
Forward exchange contracts (for forecasted transactions)	155,625	59,013	3,665	151,579	60,705	1,577
<b>Total forward exchange contracts</b>	<b>179,786</b>	<b>68,861</b>	<b>5,373</b>	<b>176,086</b>	<b>78,134</b>	<b>1,971</b>

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 (hedging reserve) 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.

IN NZD 000 GAIN/(LOSS)	10% rate increase		10% rate decrease	
	Equity	Profit or loss	Equity	Profit or loss
<b>As at 30 June 2011</b>				
USD	(12,053)	(1,893)	14,730	2,313
AUD	(5,315)	(923)	6,497	1,129
JPY/GBP/EURO	(190)	(268)	235	328
	<b>(17,558)</b>	<b>(3,084)</b>	<b>21,462</b>	<b>3,770</b>

IN NZD 000 GAIN/(LOSS)	10% rate increase		10% rate decrease	
	Equity	Profit or loss	Equity	Profit or loss
<b>As at 30 June 2010</b>				
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
	<b>(18,936)</b>	<b>(3,777)</b>	<b>23,202</b>	<b>4,618</b>

# NOTES TO THE FINANCIAL STATEMENTS <sup>(continued)</sup>

## FOR THE YEAR ENDED 30 JUNE 2011

### 19 DERIVATIVE FINANCIAL INSTRUMENTS <sup>(continued)</sup>

#### Interest rates

During the year ended 30 June 2011, interest rates on borrowings varied in the range of 3.0% to 7.1% (2010: 3.1% to 7.8%).

The Group's interest rate structure is as follows:

IN NZD 000	Effective Interest rate	Group		Effective Interest rate	Company	
		Current	Non-current		Current	Non-current
<b>As at 30 June 2011</b>						
<b>Assets</b>						
Cash and cash equivalents	2.15%	11,434	-	2.15%	8,657	-
Related party advance	n/a	-	-	7.50%	2,118	17,821
<b>Liabilities</b>						
Bank loans	6.40%		(200,000)	6.40%		(200,000)
Bonds	4.53%	-	(198,416)	4.53%	-	(198,416)
Lease liabilities	6.80%	(2,872)	(17,015)	n/a	-	-
<b>Derivatives</b>						
Collars		50,000	-		50,000	-
Floating to fixed interest rate swaps		20,000	275,000		20,000	275,000
Fixed to floating interest rate swaps		200,000	-		200,000	-
		<b>278,562</b>	<b>(140,431)</b>		<b>280,775</b>	<b>(105,595)</b>
<b>As at 30 June 2010</b>						
<b>Assets</b>						
Cash and cash equivalents	2.19%	25,565	-	2.19%	25,162	-
<b>Liabilities</b>						
Bank loans	6.45%	-	(274,000)	6.45%	-	(274,000)
Bonds	5.48%	-	(198,117)	5.48%	-	(198,416)
<b>Derivatives</b>						
Collars		-	50,000		-	50,000
Floating to fixed interest rate swaps		140,000	200,000		140,000	200,000
Fixed to floating interest rate swaps		200,000	-		200,000	-
		<b>365,565</b>	<b>(222,117)</b>		<b>365,162</b>	<b>(222,416)</b>

## 19 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

### Sensitivity analysis for interest bearing instruments

A change of 100 basis points in interest rates at the reporting date would have (increased)/decreased equity (hedging reserve) 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.

IN NZD 000	100 BP Increase		100 BP decrease	
	Equity	Profit and loss	Equity	Profit and loss
<b>As at 30 June 2011</b>				
<b>Expense/(income)</b>				
Variable rate instruments - bank loans	-	313	-	(313)
Interest rate hedges - cash flow	(10,005)	-	10,602	-
Interest rate hedges - fair value	-	357	-	(361)
	<b>(10,005)</b>	<b>670</b>	<b>10,602</b>	<b>(674)</b>
<b>As at 30 June 2010</b>				
<b>Expense/(income)</b>				
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)
	<b>(6,228)</b>	<b>5,312</b>	<b>10,463</b>	<b>(5,722)</b>

The sensitivity analysis for the Company is not materially different from that of the Group. Finance lease liabilities are not included in the analysis because they are fixed rate financial instruments.

## 20 PROVISIONS

IN NZD 000	Group and Company	
	30-Jun-11	30-Jun-10
Opening balance	599	727
Increase in provision	177	-
Used during the year	(239)	(128)
<b>Balance at end of year</b>	<b>537</b>	<b>599</b>
<b>Analysis of total provisions</b>		
Current	239	239
Non-current	298	360
	<b>537</b>	<b>599</b>

As part of the purchase of Prime Television in 2006, provision was made for programme rights which were considered to be onerous. These rights are expected to be fully utilised in the next year. Provisions also include provision for long service leave.

# NOTES TO THE FINANCIAL STATEMENTS <sup>(continued)</sup>

## FOR THE YEAR ENDED 30 JUNE 2011

### 21 SHARE CAPITAL

GROUP AND COMPANY	Number of shares (000)	Ordinary shares (NZD 000)
Shares on issue at 30 June 2011 and 30 June 2010	389,140	577,403

Ordinary shares have no par value.

SKY paid a dividend of 15.0 cents per share (30 June 2010: 14.0 cents).

As at 30 June 2011 and 2010 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-11	30-Jun-10
Balance at 1 July	(6,680)	(2,561)
<b>Cash flow hedges</b>		
Unrealised losses during the year	(14,615)	(2,114)
Transfer to basis price adjustment programme rights inventory	(5,797)	(3,016)
Transfer to property, plant and equipment	(1,702)	(2,232)
Transfer to operating expenses	812	1,714
Deferred tax (note 16)	6,391	1,694
Change in tax rate (note 16)	(447)	(165)
	(15,358)	(4,119)
<b>Balance at end of year</b>	<b>(22,038)</b>	<b>(6,680)</b>

### 23 RETAINED EARNINGS

IN NZD 000	Group		Company	
	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
Opening balance	679,657	631,272	682,154	633,930
Add net profit for the year	120,078	102,865	120,323	102,704
Less dividends paid	(58,371)	(54,480)	(58,371)	(54,480)
<b>Balance at end of year</b>	<b>741,364</b>	<b>679,657</b>	<b>744,106</b>	<b>682,154</b>

## 24 COMMITMENTS

IN NZD 000	Group and Company	
	30-Jun-11	30-Jun-10
<b>Operating leases:</b>		
Year 1	34,957	30,199
Year 2	37,207	31,596
Year 3	37,908	34,004
Year 4	41,177	33,655
Year 5	40,921	33,442
Later than 5 years	219,578	212,249
	<b>411,748</b>	<b>375,145</b>
<b>Contracts for transmission services:</b>		
Year 1	7,024	7,208
Year 2	6,306	4,430
Year 3	4,510	3,734
Year 4	2,975	3,224
Year 5	-	2,975
	<b>20,815</b>	<b>21,571</b>
<b>Contracts for future programmes:</b>		
Year 1	137,929	147,144
Year 2	92,549	114,928
Year 3	58,136	56,028
Year 4	34,059	27,178
Year 5	14,363	21,831
Later than 5 years	-	10,898
	<b>337,036</b>	<b>378,007</b>
<b>Capital expenditure commitments:</b>		
<b><i>Property, plant and equipment</i></b>		
Year 1	16,193	9,640
<b>Other services commitments:</b>		
Year 1	1,378	1,741
Year 2	1,238	1,431
Year 3	1,191	1,431
Year 4	1,088	1,263
Year 5	1,000	1,092
Later than 5 years	-	1,000
	<b>5,895</b>	<b>7,958</b>

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# **NOTES TO THE FINANCIAL STATEMENTS** *(continued)*

## **FOR THE YEAR ENDED 30 JUNE 2011**

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### **24 COMMITMENTS** *(continued)*

The Group has entered into a contract with Optus Networks Pty Limited (Optus) to lease 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 on the previous page.

SKY is currently utilising seven transponders, five of which are on a long-term lease. SKY has options to purchase capacity on two additional 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 sixth transponder is included in the commitments schedule on the previous page. Access to the seventh transponder was negotiated, effective from 1 April 2011 to enable the launch of additional channels. The cost of leasing the seventh transponder for the first three years to 31 March 2014 is based on a revenue share of certain specified SKY channels. Payments thereafter are for a fixed amount. Estimated total contingent rental payments for the seventh transponder for the period to 31 March 2014 and fixed payments thereafter are included in the commitments schedule on the previous page.

### **25 CONTINGENT LIABILITIES**

The Group and Company have undrawn letters of credit at 30 June 2011 of \$665,000 (30 June 2010: \$665,000), 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:

IN NZD 000	Group		Company	
	30-Jun-11	30-Jun-10	30-Jun-11	30-Jun-10
<b>Transactions included in the income statement:</b>				
<b>Transactions with related parties</b>				
The News Corporation Limited and its affiliates				
- Programme, smartcard and broadcasting equipment	41,064	57,558	41,064	57,558
<b>Transactions with subsidiaries</b>				
<b>SKY DMX Music Limited</b>				
Administration support, accounting services and broadcasting charges	-	-	355	367
<b>Outside Broadcasting Limited</b>				
Interest received on advance to subsidiary	-	-	(1,023)	-
Broadcasting fees paid	-	-	11,620	-
<b>Transactions included in the balance sheet:</b>				
<b>Owing to related parties</b>				
Owing to affiliates of The News Corporation Limited and Non-controlling shareholders of Screen Enterprises Limited (note 17)	3,406	4,757	3,846	4,757
<b>Receivable from subsidiaries</b>				
Trade receivable from subsidiaries (note 10)	-	-	330	367
<b>Advance to subsidiary</b>				
Current portion of advance to subsidiary (note 10)	-	-	2,118	-
Non-current portion of advance to subsidiary	-	-	17,721	-
<b>Total advance to subsidiary</b>	-	-	<b>19,839</b>	-

Related parties include News 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 2010: nil).

The advance to subsidiary is for a term of ten years. The interest rate is 7.5% payable monthly in arrears and principal repayments are made quarterly. No amounts owed by related parties have been written off or provided against during the year (30 June 2010: nil).

# NOTES TO THE FINANCIAL STATEMENTS <sup>(continued)</sup>

## FOR THE YEAR ENDED 30 JUNE 2011

### 26 RELATED PARTY TRANSACTIONS <sup>(continued)</sup>

#### Short term employee benefits

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

IN NZD 000	Group and Company	
	30-Jun-11	30-Jun-10
Directors' fees	489	476
Remuneration key management personnel	9,030	8,375
	<b>9,519</b>	<b>8,851</b>

Long service leave entitlements for key management personnel are \$22,000 (2010: \$22,000).

### 27 BUSINESS ACQUISITIONS

On 9 July 2010 the Group through its subsidiary Outside Broadcasting Limited (previously SKY Telecommunications (MR7) Limited) acquired the assets and certain liabilities of On Site Broadcasting (NZ) Limited and OSB (NZ) Equipment Limited from Australian media company Prime Media Group for a cash consideration of \$13,426,000. In addition Outside Broadcasting Limited and SKY entered into a profit share 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. Acquisition costs of \$62,000 are included in corporate expenses in the income statement for the period ended 30 June 2011. The acquisition enabled SKY to secure outside broadcasting resources and ensure continuation of services over the coming years as well as allowing SKY the ability to broadcast a greater range of local sports.

The assets and liabilities arising from the acquisition were as follows:

IN NZD 000	Fair value
Plant and equipment	34,700
Lease liabilities	(22,693)
Deferred tax	426
Provision for holiday pay and long service leave	(74)
Goodwill	1,067
	<b>13,426</b>

Goodwill is attributable to the benefits arising from the Group's ability to control these outside broadcasting assets and reducing the costs of covering additional sports events in the future.

Revenue and net profit before tax included in the consolidated statement of comprehensive income since 9 July 2010 contributed by Outside Broadcasting Limited were \$2,833,000 and \$224,000 respectively.



## 28 FINANCIAL INSTRUMENTS BY CATEGORY

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

IN NZD 000	Notes	Other financial liabilities	Loans and receivables	At fair value through the profit and loss	Derivatives used for hedging	Total
<b>GROUP</b>						
<b>As at 30 June 2011</b>						
<b>Assets as per balance sheet</b>						
Cash and cash equivalents		-	11,434	-	-	11,434
Trade and other receivables	10	-	66,606	-	-	66,606
Derivative financial instruments	19	-	-	1,149	1,182	2,331
<b>Liabilities as per balance sheet</b>						
Trade and other payables	17	(83,623)	-	-	-	(83,623)
Borrowings	18	(200,000)	-	-	-	(200,000)
Lease liabilities	18	(19,887)	-	-	-	(19,887)
Bonds	18	(198,416)	-	-	-	(198,416)
Derivative financial instruments	19	-	-	(3,897)	(34,830)	(38,727)
		<b>(501,926)</b>	<b>78,040</b>	<b>(2,748)</b>	<b>(33,648)</b>	<b>(460,282)</b>
<b>GROUP</b>						
<b>As at 30 June 2010</b>						
<b>Assets as per balance sheet</b>						
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
<b>Liabilities as per balance sheet</b>						
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)
		<b>(548,638)</b>	<b>86,334</b>	<b>(1,109)</b>	<b>(12,413)</b>	<b>(475,826)</b>

# NOTES TO THE FINANCIAL STATEMENTS <sup>(continued)</sup>

FOR THE YEAR ENDED 30 JUNE 2011

## 28 FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

IN NZD 000		Other financial liabilities	Loans and receivables	At fair value through the profit and loss	Derivatives used for hedging	Total
<b>COMPANY 30 June 2011</b>						
<b>Assets as per balance sheet</b>						
Cash and cash equivalents		-	8,657	-	-	8,657
Trade and other receivables	10	-	68,182	-	-	68,182
Related party receivable	26	-	19,839	-	-	19,839
Derivative financial instruments	19	-		1,149	1,182	2,331
<b>Liabilities as per balance sheet</b>						
Trade and other payables	17	(81,228)	-	-	-	(81,228)
Borrowings	18	(200,000)	-	-	-	(200,000)
Bonds	18	(198,416)	-	-	-	(198,416)
Derivative financial instruments	19	-	-	(3,897)	(34,830)	(38,727)
		<b>(479,644)</b>	<b>96,678</b>	<b>(2,748)</b>	<b>(33,648)</b>	<b>(419,362)</b>
<b>COMPANY 30 June 2010</b>						
<b>Assets as per balance sheet</b>						
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
<b>Liabilities as per balance sheet</b>						
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)
		<b>(548,086)</b>	<b>85,972</b>	<b>(1,109)</b>	<b>(12,413)</b>	<b>(475,636)</b>

## 29 SUBSEQUENT EVENTS

There have been no subsequent events after balance date.

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# INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF SKY NETWORK TELEVISION LIMITED

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### REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of SKY Network Television Limited on pages 28 to 74, which comprise the balance sheets as at 30 June 2011, the income statements, statements of comprehensive income and statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 June 2011 or from time to time during the financial year.

#### **Directors' Responsibility for the Financial Statements**

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have no relationship with, or interests in, SKY Network Television Limited other than in our capacities as auditors and

through the provision of other assignments for the Company 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 the trading activities of the Company and Group. These services have not impaired our independence as auditors of the Company and Group.

#### **Opinion**

In our opinion, the financial statements on pages 28 to 74:

- (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 the Group as at 30 June 2011, and their financial performance and cash flows for the year then ended.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2011:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

### RESTRICTION ON DISTRIBUTION OR USE

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.

*Price Waterhouse Coopers*

Chartered Accountants  
Auckland

25 August 2011



# OTHER INFORMATION

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# CORPORATE GOVERNANCE STATEMENT

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## BOARD OF DIRECTORS

### Membership

SKY's board is elected or appointed by the shareholders of SKY by ordinary resolution. As at 30 June 2011, the board consisted of seven directors whose relevant skills, experience and expertise are outlined in their biographies on pages (22) and (23). 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 \$750,000 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 2011 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 2011 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 (22) and (23).

### Meetings

The board has regularly scheduled meetings and also meets when a matter of particular significance arises. During the year between 1 July 2010 and 30 June 2011 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	6
Michael Miller	7	5
Humphry Rolleston	7	5
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 John Waller, Robert Bryden and Humphry Rolleston. John Hart ceased being a member of the committee during the year to 30 June 2011.

### 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

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# CORPORATE GOVERNANCE STATEMENT *(continued)*

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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 2011:

- (a) the audit and risk committee met four times (one of which was by teleconference). John Hart attended one of the meetings and the rest of the members of the committee attended all four meetings.
- (b) the nomination and remuneration committee met three 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, practices and processes 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 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 and was updated in the year to 30 June 2011 to comply with new ASX Listing Rule 12.9.

### **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](http://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.

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: The references to specific recommendations in this section are to these NZX and ASX recommendations that applied to SKY in the year to 30 June 2011.

#### **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 Performance 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 2011.

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

#### **Confirmation of Financial Statements (ASX Recommendation 7.3):**

Each year SKY's Chief Executive Officer and Chief Financial Officer confirm in a written statement to the board that the financial statements are true and fair, 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.

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# INTERESTS' REGISTER

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The following are particulars of entries recorded in the SKY Interests' Register for the year to 30 June 2011:

## 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:

<b>Peter Macourt</b>	<b>Entity</b>	<b>Relationship</b>
	Foxtel Management Pty Limited	Director
	News Limited and other subsidiaries of News Australia Pty Limited	Director/Officer
	Premier Media Group Pty Limited	Director

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<b>Robert Bryden</b>	<b>Entity</b>	<b>Relationship</b>
	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 <sup>(1)</sup>	Director
	Integria Healthcare Limited	Director

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<b>John Fellet</b>	<b>Entity</b>	<b>Relationship</b>
	Media Finance Limited	Director
	Outside Broadcasting Limited	Director
	Cricket Max Limited	Director

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<b>John Hart</b>	<b>Entity</b>	<b>Relationship</b>
	Bayley Corporation Limited	Director
	New Zealand Warriors Limited	Director
	Global Rugby Enterprises Limited and subsidiaries of Global Rugby Enterprises Limited	Director/Shareholder
	New Zealand 2011 Group	Member

<sup>(1)</sup> Including Todd Communications Limited



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<b>Michael Miller</b>	<b>Entity</b>	<b>Relationship</b>
	News Limited and other subsidiaries of News Australia Pty Limited	Director/Officer
	Premier Media Group Pty Limited	Director
	Rugby International Pty Limited	Director

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<b>Humphry Rolleston</b>	<b>Entity</b>	<b>Relationship</b>
	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

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<b>John Waller</b>	<b>Entity</b>	<b>Relationship</b>
	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 Board	Chairman
	Direct Property Fund Limited and subsidiaries of Direct Property Fund Limited	Director/Shareholder
	Rugby Sales New Zealand Limited and related entities	Director

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# **INTERESTS' REGISTER** *(continued)*

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## **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 2011.

## **DISCLOSURES OF INTEREST – PARTICULAR TRANSACTIONS/USE OF COMPANY INFORMATION**

During the year to 30 June 2011 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 2011 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. This disclosure was made by John Fellet and related to the acquisition of legal ownership of ordinary shares through the NZX for total consideration of \$48,600 on 23 August 2010.

## **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.

## **SKY SUBSIDIARIES' INTERESTS' REGISTER**

The directors of Screen Enterprises Limited have given a general notice disclosing interests arising from being appointed as a director by the shareholders of Screen Enterprises, being SKY (in the case of Michael Watson and Angus Swainson) and Westside Media Limited (in the case of Timothy MacAvoy and Bryan Mogridge). Bryan Mogridge also recorded interests arising from being a director and shareholder of Westside Media Limited. John Fellet made a general disclosure in the interests register of Outside Broadcasting Limited that he is a director of SKY.

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# COMPANY AND BONDHOLDER INFORMATION

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## DIRECTORS HOLDING AND CEASING OFFICE

At 30 June 2011 the following persons were directors of SKY:

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Peter Macourt

Robert Bryden

John Fellet

John Hart

Michael Miller

Humphry Rolleston

John Waller

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## SUBSIDIARIES

At 30 June 2011, SKY had the following subsidiary companies: SKY DMX Music Limited, Screen Enterprises Limited, Cricket Max Limited, Media Finance Limited and Outside Broadcasting Limited. During the year to 30 June 2011, SKY DMX Music Limited operated the SKY DMX music business, Screen Enterprises Limited acted as agent for the Screen Enterprises joint venture and Outside Broadcasting Limited provided mobile on site broadcasting facilities and services. None of the other subsidiaries traded during that year.

## DIRECTORS OF SUBSIDIARIES

At 30 June 2011, the directors of SKY DMX Music Limited were Grant McKenzie, Martin Wrigley, Ben Gujral and Steven Hughes. The directors of Screen Enterprises Limited were Timothy MacAvoy, Bryan Mogridge and Michael Watson<sup>(1)</sup>. 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 (86) or, in the case of John Fellet, his remuneration is disclosed below under the heading "Remuneration of Directors".

(1) Michael Watson was replaced as a director by Angus Swainson on 27 July 2011.

## 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 2011:

Relevant Interests	Shares
Peter Macourt	-
Robert Bryden	-
John Fellet	106,600
John Hart	25,000
Michael Miller	-
Humphry Rolleston	-
John Waller	-

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## REMUNERATION OF DIRECTORS

Directors' remuneration and value of other benefits received by directors of SKY during the year 1 July 2010 to 30 June 2011 was as follows:

Name	Total Remuneration
Peter Macourt	\$95,000
Robert Bryden	\$87,000
John Fellet <sup>(1)</sup>	\$1,467,500
John Hart	\$80,000
Michael Miller	\$65,000
Humphry Rolleston	\$79,016
John Waller	\$83,000

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(1) John Fellet is also SKY's Chief Executive Officer and a Director of Cricket Max Limited, Media Finance Limited and Outside Broadcasting Limited. 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 15 August 2011:

Entity	Securities
News Limited (Nationwide News Pty Limited) <sup>(1)</sup>	169,854,716
Todd Communications Limited	43,220,277

The total number of issued voting securities of SKY as at 15 August 2011 was 389,139,785.

## TWENTY LARGEST SHAREHOLDERS AS AT 15 AUGUST 2011

Holder Name	Holding	Percentage (to 2 d.p.)
News Limited	169,854,716	43.65
Todd Communications Limited	43,220,277	11.11
HSBC Nominees (New Zealand) Limited (A/c State Street)	12,259,317	3.15
National Nominees New Zealand Limited	11,436,132	2.94
Accident Compensation Corporation	10,356,379	2.66
JP Morgan Nominees Australia Limited	9,409,124	2.42
New Zealand Superannuation Fund Nominees Limited	9,160,800	2.35
Cogent Nominees Pty Limited	8,986,576	2.31
National Nominees Limited	8,217,018	2.11
TEA Custodians Limited	8,095,633	2.08
Premier Nominees Limited (Onepath Wholesale Australasian Share Fund)	6,664,388	1.71
HSBC Custody Nominees (Australia) Limited	5,945,859	1.53
Citibank Nominees (New Zealand) Limited	5,856,072	1.50
AMP Investments Strategies Equity Growth Fund	4,086,093	1.05
NZ Guardian Trust Investment Nominees Limited	3,342,579	0.86
Westpac NZ Shares 2002 Wholesale Trust	2,932,870	0.75
Custody and Investment Nominees Limited	2,549,545	0.66
Citicorp Nominees Pty Limited (Commonwealth Bank Off Super A/c)	2,522,474	0.65
Asteron Life Limited	2,511,180	0.65
FNZ Custodians Limited	2,392,121	0.61

(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.

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**DISTRIBUTION OF ORDINARY SHARES AND SHAREHOLDINGS AS AT 15 AUGUST 2011**

	No. of Shareholders	Percentage (to 2 d.p.)	No. of Shares	Percentage (to 2 d.p.)
1 – 1,000	2,541	33.87	1,644,142	0.42
1,001 – 5,000	3,530	47.04	9,028,582	2.32
5,001 – 10,000	818	10.90	5,907,224	1.52
10,001 – 100,000	536	7.14	12,417,251	3.19
100,001 and over	79	1.05	360,142,586	92.55
<b>TOTAL</b>	<b>7,504</b>	<b>100.00</b>	<b>389,139,785</b>	<b>100.00</b>

**NON-MARKETABLE PARCELS OF SHARES**

As at 15 August 2011, 168 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 15 August 2011:

- SKY had no restricted securities or securities subject to voluntary escrow on issue;
- there was no on-market-buy-back; and
- SKY was not subject to section s611 of the Australian Corporations Act 2001.

**VOTING RIGHTS ATTACHED TO SHARES**

Each share entitles the holder to one vote.

**DISTRIBUTION OF BONDS AND BONDHOLDINGS AS AT 15 AUGUST 2011**

	No. of Bondholders	Percentage (to 2 d.p.)	No. of Bonds	Percentage (to 2 d.p.)
1 – 1000	-	-	-	-
1,001 – 5,000	219	8.50	1,095,000	0.55
5,001 – 10,000	578	22.43	5,542,000	2.77
10,001 – 100,000	1,642	63.71	57,836,000	28.92
100,001 and over	138	5.36	135,527,000	67.76
<b>TOTAL</b>	<b>2,577</b>	<b>100.00</b>	<b>200,000,000</b>	<b>100.00</b>

**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.

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# COMPANY AND BONDHOLDER INFORMATION (continued)

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## EMPLOYEE REMUNERATION

The number of employees or former employees of SKY and its subsidiaries (excluding directors of SKY but including employees holding office as directors of subsidiaries, other than the chief executive<sup>(1)</sup>) whose remuneration and benefits was within specified bands for the year to 30 June 2011 is as follows:

Remuneration \$	Number of Employees
100,000 – 110,000	38
110,001 – 120,000	19
120,001 – 130,000	8
130,001 – 140,000	4
140,001 – 150,000	11
150,001 – 160,000	5
160,001 – 170,000	3
170,001 – 180,000	2
180,001 – 190,000	2
190,001 – 200,000	5
200,001 – 210,000	5
210,001 – 220,000	3
220,001 – 230,000	2
230,001 – 240,000	2
250,001 – 260,000	1
260,001 – 270,000	1
300,001 – 310,000	1
330,001 – 340,000	2
340,001 – 350,000	1
360,001 – 370,000	1
380,001 – 390,000	3
400,001 – 410,000	1
550,001 – 560,000	1
<b>Total</b>	<b>121</b>

(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 (83).

## DONATIONS

During the year 1 July 2010 to 30 June 2011, SKY made donations totalling \$491,000. This included a donation of \$264,000 to the Red Cross to support the people of Christchurch following the February earthquake. 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 2011 for statutory audit services was \$181,000 and for other assurance services was \$65,000. SKY DMX Music Limited paid PricewaterhouseCoopers \$8,000 in audit fees during the 2011 year and did not pay PricewaterhouseCoopers for any other services. SKY's other subsidiaries did not pay PricewaterhouseCoopers any fees.

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# WAIVERS AND INFORMATION

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## CURRENT AND ONGOING WAIVERS

The following is a summary of all waivers granted in favour of SKY which were relied upon by SKY in the 12 month period preceding the date 2 months before the date of publication of this report.

- (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 15.7 to permit SKY to provide announcements simultaneously to both ASX and NZX;
- (d) 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;
- (e) 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;
- (f) 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;
- (g) 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;
- (h) confirmation that SKY can provide substantial holder information provided to it under the New Zealand Securities Markets Act 1988; and
- (i) 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).

## ADMISSION TO THE OFFICIAL LIST OF THE ASX

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 Australian Corporations Act 2001 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.

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# SHARE MARKET AND OTHER INFORMATION

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## 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](http://www.nzx.com)

## AUSTRALIA

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

### ASX Limited

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](http://www.asx.com.au)

## FINANCIAL CALENDAR

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2010/2011 Financial year end	30 June 2011
2010/2011 Full year results announced	26 August 2011
Next Annual Meeting	21 October 2011
2011/2012 Half year results announced	February 2012
2011/2012 Financial year end	30 June 2012
2011/2012 Full year results announced	August 2012

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## ANNUAL MEETING

The next annual meeting of SKY Network Television Limited will be held at the Stamford Plaza Auckland Hotel, 22-26 Albert Street, Auckland, New Zealand, on 21 October 2011, commencing at 2 pm.



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# DIRECTORY

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## 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 Mail Centre  
Auckland 1142, New Zealand

Tel: 64 9 488 8777; Fax: 64 9 488 8787

Email: [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

### AUSTRALIAN BRANCH REGISTER

#### Computershare Investor Services Pty Limited

Yarra Falls, 452 Johnston Street  
Abbotsford VIC 3067  
GPO Box 2975EE  
Melbourne VIC 3000, Australia

Freephone: 1300 850 505 (within Australia)

Tel: 61 3 9415 4000; Fax: 61 3 9473 2500

Email: [sydney.services@computershare.com.au](mailto:sydney.services@computershare.com.au)

### 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](mailto: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 Production

Greg Drummond: Director of Broadcast Services

Travis Dunbar: Director of Entertainment

Charles Ingley: Director of Technology

Megan King: Head of Programme Finance and  
Acquisition

Richard Last: Director of Sports Content

Rawinia Newton: Director of Advertising Sales

Tony O'Brien: Director of Corporate and  
Regulatory Affairs

Cathryn Oliver: Chief of Staff

Mike Watson: Director of Marketing

Martin Wrigley: Director of Operations

Kirsty Way: Head of Corporate Communications

### 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](http://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

# SKY CHANNELS

FOR THE YEAR ENDED 30 JUNE 2011

## Types of Channels

36 Basic Channels	13 Free-to-air Channels	11 PPV Movie Channels
7 Sport Channels	5 Specialist Channels	1 PPV Event Channel
6 Movie Channels	8 Radio Channels	3 PPV Adult Channels
3 Interactive Channels	14 Audio Music Channels	107 Total

## 36 BASIC CHANNELS



## 7 SPORT CHANNELS



## 6 MOVIE CHANNELS



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### 3 INTERACTIVE CHANNELS

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### 13 FREE-TO-AIR CHANNELS

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### 5 SPECIALIST CHANNELS

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### 8 RADIO CHANNELS

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### OTHER

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14 Audio Music Channels



1 PPV Event Channel



11 PPV Movie Channels

3 PPV Adult Channels

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