

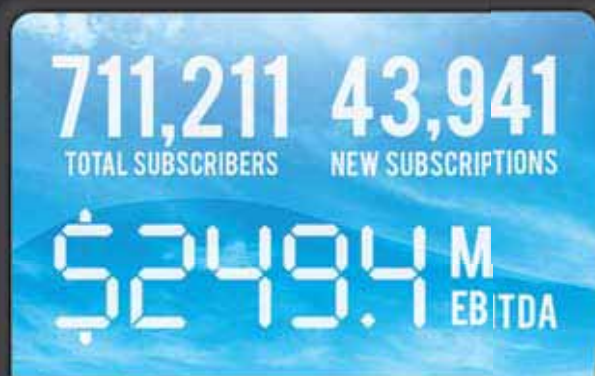
2007

SKY NETWORK TELEVISION LIMITED

ANNUAL REPORT



HIGHLIGHTS



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COVER IMAGE: PIRATES OF THE CARIBBEAN: DEAD MAN'S CHEST, SHOWN ON SKY BOX OFFICE ON 25 APRIL 2007



A SERIOUSLY ENTERTAINING YEAR



WITH A 29% INCREASE IN NET PROFIT AFTER TAX TO \$77.9 MILLION FOR THE YEAR TO 30 JUNE 2007, SKY HAS MADE SIGNIFICANT PROGRESS OVER THE PAST 12 MONTHS.

The result reflects continuing growth in subscribers and that the average revenue from each subscriber is also increasing.

SKY's revenue increased 12.7% to \$618.5 million. Operating costs also increased, by 22.5% to \$369.1 million, in part because of the different accounting treatment for SKY's satellite lease on the new Optus D1 satellite. These satellite costs are treated as an operating expense, whereas previously the Optus B1 satellite was treated as a finance lease and its costs as interest and depreciation.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased \$1.7 million to \$249.4 million, an increase of 0.7%. However, excluding the change in accounting treatment, EBITDA increased 8.3%.

SKY's subscriber base grew by 43,941 to 711,211, an increase of 6.6%. This continues to demonstrate the strength of SKY's channels and programmes. Almost 45% of New Zealand homes now have SKY.

The number of subscribers who disconnected their service during the year continued to fall with the rolling annual gross churn decreasing from 13.5% in the preceding year to 13.4% for 2007.

In the past year we launched four new channels; MTV, the Documentary Channel, FOX News Channel and the Hindi general entertainment channel, STAR PLUS, all of which contributed to increasing SKY's share of total television viewing from 22.5% in 2006 to 25.1% in 2007, an increase of 11.6%.

We launched the new Optus D1 satellite in October 2006 and successfully transitioned services from the old Optus B1 satellite to D1 in mid-November. We also launched mobile video services on the Vodafone 3G network in February 2007.

Looking ahead, SKY is continuing to progress its plans to launch a second generation MY SKY decoder incorporating high definition television, IPTV capability and additional hard drive storage. We are expecting these decoders to be available by the end of the 2008 financial year.

The board is committed to ensuring that SKY will remain a major player in the New Zealand entertainment industry and has to remain at the leading edge of technology to achieve this goal.

As I announced last year, a second broadcast centre at Albany was commissioned in September 2006 and work commenced in February of this year to convert the Panorama Road television station from a tape-based analogue station to a digital server-based station. The new facility is scheduled for commissioning in the 2008 financial year.



Barrie Downey has announced that he will retire from the board at SKY's Annual General Meeting on 26 October 2007. Barrie has been involved with SKY from its establishment as a three-channel UHF pay television business and has overseen the development of the business to its current position as one of the largest listed companies in New Zealand with a market capitalisation in excess of \$2 billion.

We thank him for his valuable contribution, insight and guidance over the many years that he was both chairman and a director.

Finally I would like to thank John Fellet, SKY's management team and all our employees, contractors and subscribers for their dedication and continued support of this great company.

Peter Macourt

PETER MACOURT

CHAIRMAN



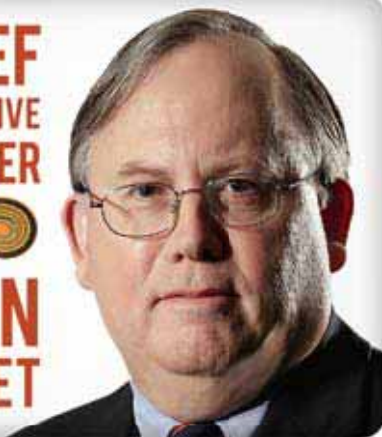
6.6% INCREASED
SUBSCRIBER
BASE

We love changing the Channel

CHIEF
EXECUTIVE
OFFICER



JOHN
FELLET



IF YOU HAVE BEEN A SHAREHOLDER OF SKY NETWORK TELEVISION LIMITED FOR MORE THAN A YEAR YOU WILL NOTE IN MY ANNUAL LETTER THAT I ATTEMPT TO DRAFT MY CORRESPONDENCE AS IF ALL SHAREHOLDERS ARE LIVING OVERSEAS AND THAT THE ONLY INFORMATION THEY KNOW ABOUT THEIR INVESTMENT IS FROM THE INFORMATION CONTAINED IN THE ANNUAL REPORT.

The financial information is quite detailed and provides a financial snapshot of the business. However, it is more difficult to spot trends in the business as well as in the industry. It is my goal to enlighten you on these trends.

SKY has a simple business model. We do not consider ourselves either a pay television company or a satellite company, but rather a company that creates and aggregates content for consumers to watch in their living

room, hotel room, or even on a bus. They choose to watch it on their big screens, computers or on a 3G mobile phone on a fishing boat. The content can be in the form of physical tapes, digital impressions (as in the case of CNN News) or one of the 21,000 DVD titles in the library of our DVD Unlimited business. Our revenue is in the form of installation fees, monthly subscription fees and advertising revenues.

I am pleased to report that it was another strong year. Net income was \$77.9 million, an increase over last year of 29%. Revenue grew to \$618.5 million, an increase of 12.7% on the previous year. The key to this growth, as always, was the increase in subscriber numbers. At 30 June 2007, SKY had a total of 711,211 subscribers, an increase of 6.6% over the previous year.

The year got off to a very strong start, only tapering off in the last 45 days. We believe this decline was part of a general overall softening in the retail sector in New Zealand, induced in part by a series of interest rate rises intended to cool off what had been a very buoyant local economy. The softening of the economy has not yet translated into a higher churn rate, indicating that if SKY can attract and install new customers, it should be able to keep them.

The currency remains strong by historic standards but should also start to decline with the economy. In June 2007, one NZ dollar could have purchased 81 US cents, a post float record. SKY is a large importer of goods. Our goods tend to be intangible rights to entertainment and sport which are typically priced in US dollars. Like all importers, we gain financially whenever the NZ dollar strengthens and we feel the squeeze when the reverse happens.

In an effort to smooth the cyclical and random nature of currency moves, several years ago, SKY started hedging out its currency exposure. Our policy is to hedge a minimum of 85% of our forecast variable exposures over 0-12 months and between 25% and 45% of forecast exposures over 13-36 months. Fixed commitments are at least 70% hedged for a minimum of 36 months. With the hedge policy in place, the US\$/NZ\$ currency rate was effectively 63.5 cents in the latest year. In this new financial year it should be around 66 cents.

During the year there was much public discussion on the drop in ratings for rugby. Competitors and newspapers were quick to criticise the sporting code while failing to explain falling ratings of their own television series or a drop in newspaper circulation.

There is no doubt that television ratings fell for rugby this year. There are numerous reasons for this. By far the greatest impact on the Super 14 was the lack of some key All Black players during the first seven weeks of the season. Because this is a World Cup year for rugby, the rugby season started in early February, four weeks earlier than normal, which placed it in competition with a successful cricket season. Historically we have always had trouble in maximising viewer interest when codes play matches outside their traditional New Zealand seasons. This is true for cricket played in the northern hemisphere in June or rugby in November.

It is important to understand that unlike free-to-air channels that depend totally on ratings, pay television takes a wider view on programming. The Olympics will typically dominate the ratings in any country for a two week period every four years. However it is normally not a great product for pay television because it only runs for 14 days. Pay television needs competitions that run for weeks and become the topic of discussion around the water cooler every Monday morning.

Rugby is still an important icon for SKY in spite of the drop in ratings. This past February was one of the strongest in our history with respect to net gain in subscribers. We can attribute this to the early start of the rugby season. We are also seeing a change in how people watch rugby with social schedules being rearranged less frequently for a 7:35pm kick off. Instead, some are electing to view the Friday game later that night or even on a Saturday morning as part of a replay on another

channel. We even had 400 fans watch the last Australia-New Zealand test match using their 3G Vodafone cell phones. What is also emerging as a growing trend is the fact that our most dedicated and heaviest viewers are enjoying SKY through the MY SKY decoder. SKY has installed 21,000 so far. MY SKY customers seldom watch anything live. I will go into more detail on the MY SKY decoder later.

BUSINESS CHANGES

Two major events have occurred that will challenge the ability of the reader to compare the financial statements of the year ending 30 June 2007 with those of the previous year. I will attempt to describe these events and to explain the reason for them.

The first event was the acquisition of Prime TV, the smallest of the commercial broadcasters in New Zealand. SKY acquired Prime in February 2006, which means that the financial statements as at 30 June 2007 include 12 months of Prime results compared with only 5 months of results in the previous year. More about Prime later.

The second event was the accounting treatment of our satellite lease. In 1997 when SKY first launched its satellite service, it needed to lease space, or more accurately transponders, from a satellite owner. Because SKY "leased" these transponders for a significant portion of their life, we were required to account for the transactions as a finance lease under New Zealand's Generally Accepted Accounting Principles (GAAP). Accordingly the present value of all future payments was recorded both as an asset on the balance sheet and as an offsetting debt.

12.7% REVENUE INCREASE

29% NET INCOME INCREASE





Each year to show the cost of using the asset we depreciate the asset and recognise the interest cost on the debt. This means that the cost of the satellite lease is shown below the EBITDA (Earnings before interest, taxes, depreciation and amortisation) line.

In October 2006, Optus launched a new satellite called D1. Under the terms of the new lease Optus is retaining the risk and rewards of ownership of the transponder assets and therefore the new lease is treated as an operating lease. This means that all satellite lease payments are treated as operating expenses and are recognised above the EBITDA line.

The reason for going into detail on this subject is because if you view EBITDA as an indicator of SKY's growth, the 0.7% increase in 2007 seems unimpressive. However, if the accounting treatment had been consistent with the previous year, EBITDA would have been up by a healthier \$20.3 million or 8%. Thus the three lines affected by this change are the depreciation and interest (which will be lower this year) and broadcasting and infrastructure expense (which will be higher this year). As the cost of the new lease is similar to the old lease, there is no significant change in the net income line.

Now back to Prime. In New Zealand, the general entertainment commercial networks are dominated by TV 1 and TV 2 (which are both owned by TVNZ the publicly owned, but very commercial broadcaster) and TV 3, which was recently purchased by the private equity firm Ironbridge. In that same purchase Ironbridge also acquired the youth-oriented channel C4. Prime TV was and remains the weakest of the four free-to-air general entertainment channels.

By the time we acquired Prime, it had accumulated losses of over \$70 million. Its share of viewing was around 4.9%.

The Prime acquisition was always going to be a controversial purchase and was hotly debated at the management and board level. Globally, free-to-air television networks are under pressure. The two main components of their business are the 30-second advertising spot and the weekly television series.

Both these components are being challenged by a major evolution resulting from the desire of customers to have greater control and choice over how they access and view content. Consumers today want everything, everywhere, at any time. This impacts the pay television market to some degree but has a more significant impact on traditional free-to-air broadcasters.

By looking at the United States, we can see how trends are set in viewing habits. In 2000, the average family in the US had the option every night to come home and watch around 61 channels. Just seven years later the average is 100 channels. Although we are behind the development curve, a similar growth rate of channels is being seen in New Zealand. The pool of viewing options is growing much faster than the pool of viewers. Each new channel, no matter how small, takes some viewership away from other channels. The most viewed channels have the most to lose.

In New Zealand, the government has funded the launch of FreeView in an effort to encourage traditional free-to-air television viewers who currently watch the free-to-air channels on analogue frequencies to convert their viewing to digital frequencies. Once this conversion is complete the government will have additional radio spectrum to use for other purposes.

There has been much media speculation on the FreeView versus SKY conflict as though it was some sort of long

awaited heavyweight boxing event. FreeView was never intended to be an anti pay television move. In fact, similar FreeView-type launches in other countries have tended to have a far greater impact on advertising-based broadcasters than on the local pay television operators. The best example is the UK where the FreeView platform has over 30 channels. The pay television industry there has been growing at an envious pace while the free-to-air broadcasters have suffered.

Fractionalisation hurts all advertising supported broadcasters even if self imposed.

Time shifting also has an increasing impact. About 17% of US homes watch shows outside their scheduled time. This is being driven by the advent and ease of use of Digital Video Recorders (DVRs). SKY launched its own DVR, MY SKY, in December 2005. If we add to this downloading from the internet and the success of television series in the form of DVD box sets, you can start to see the growing importance of time shifting and understand why traditional broadcasters are suffering.

It is still not known what impact devices like MY SKY will have on the 30-second advertising spot. There have already been calls by networks in the US to use delayed viewing figures as part of the ratings. It will be interesting to see if advertisers agree.

MY SKY has been an amazing addition to the SKY family of services. Like all new technologies, it has not been without its share of teething problems. However out of everything we have ever introduced, this has had by far the greatest acceptance and loyalty.

Subscribers have written to me saying they never watch live television anymore. The MY SKY decoder increases the value of smaller channels like the History Channel or Rialto because the great programmes on those channels no longer compete with the great programmes on mainstream channels. MY SKY can record two different programmes at the same time. At the touch of a button it can record a person's favourite series for the whole season without them having to remember to set the record timer every week.

A new breakthrough just announced involves downloading recently released movies directly to the MY SKY decoder. This allows consumers to have

Video-on-Demand programmes and events available directly to their television set for the first time in New Zealand. No one else can do this on a nationwide scale.

The largest provider of DVDs in the United States is Netflix Inc., an online DVD rental service with a similar business model to our own DVD Unlimited. Its experience shows that 20% of all the DVDs sent out each day are television series. About one-third of these renters never saw the episodes when they were originally aired on television.

Viewers now want to see their choice of content on every single device. Who would have guessed that we would already have 11,000 subscribers to our Vodafone video service that was only launched a few months ago?

So, if the free-to-air broadcaster will continue to feel pressure, why did we decide to buy Prime? There were several reasons with the most important one being the need to build a second playout and uplink facility in order to provide some redundancy for our main television station in Mount Wellington. We had budgeted \$15 million for this project and found the Prime facility in Albany to be the perfect site. It was situated the right distance away from Mt Wellington and was a purpose built broadcast operation. Of the \$30 million dollar price tag for Prime, about half of this investment would have been needed for the redundant site. Today, half of our satellite channels are uplinked from Prime in Albany and the other half are uplinked from Mount Wellington.

Prime also comes with a nationwide UHF channel. Like the other four UHF channels SKY owns, this spectrum, when renewed, will be usable until 2020. While no business plans have been made public, we think this asset can only become more valuable as wireless applications such as Mobile TV continue to develop.

Prime also gave us the opportunity to start acquiring free-to-air programming where we see a strong value. Keep in mind that SKY looks at programming the same way portfolio managers look at investments. Any time a product becomes available or is up for renewal, we review and determine the expected value that the movie output deal, channel, television series or sporting event will generate for SKY based on expected subscriber lift, viewership or advertising.

As a CEO, I consider that my primary role is to allocate funds in a way that maximises shareholder value. Sometimes this allocation is between two different departments, sometimes it is between capital or expense items and sometimes it is between different programming types such as a sporting event or another channel.

„ As a CEO I consider my primary role is to allocate funds in a way that maximises shareholder value,„

For some time we have been impressed by the risk versus reward ratio in first-run television series. While these normally premiered on free-to-air networks, they were not required to do so. In most cases, by having the original rights, the broadcaster also controlled the rerun rights for these shows.

The reason for the surge in valuation of first-run television series was simple. Most English language television series are controlled by six or seven studios mainly based in Hollywood or London. These studios typically sell their product in what is known as an output deal, which means that a broadcaster agrees to take everything the studio produces over the next three to five years at a fixed rate.

The amount and quality of television series has grown very quickly because movies and sporting events have less value on networks today compared to a few years ago. This means that networks in the US and UK are commissioning a higher number and a better quality of television series than ever before. In fact, we may look back at this era and consider it the golden age of television dramas. Examples of this are *“Lost”*, *“Prison Break”*, *“House”*, *“CSI”* and *“Desperate Housewives”*. This increased focus on television series has made existing output deals more valuable.

Prime was the only free-to-air network without an output deal. Through the acquisition of Prime we now have a better opportunity to acquire a significant output deal.

As we suspected, previous television series output deals were great bargains. When the deals were renewed, the successful bidders for the largest output deals paid considerable more money than before. While our success in securing output deals for Prime has

been minimal, I am satisfied that we had bid fair value for the output deals that were on offer. At the end of the day, a successful bid is not one that you win, but one that you win at a low enough price to allow you to add value to the company rather than erode it.

On a positive note we have secured some new output deals for Prime. Lionsgate and MGM now provide product for Prime and other channels on our platform. In addition, Prime has negotiated some key content deals with Columbia and HBO including one of the hottest shows in the US, *“Flight of the Conchords”*. This will launch in September together with a locally produced comedy called *“Welcome to Paradise”*, produced by the Gibson Group.

Also, on the programming front, there has been a persistent decrease in the amount that broadcasters were prepared to pay for delayed rights for rugby, league and cricket. We feel the showing of these events on a delayed basis is a great way to promote SKY Sport subscriptions. In previous years when SKY’s penetration was low, free-to-air broadcasters were prepared to pay millions for the delayed rights to these sports. As our penetration has increased, the price of these rights has fallen so low that we could argue that by giving the rights to Prime at no cost, the value of the increased viewership and advertising revenue for Prime was greater than the revenue from free-to-air broadcasters.

We also felt that technical transformations were moving in Prime’s favour. While its rivals broadcast using a superior VHF network, Prime broadcasts through a UHF network that has less geographic coverage. There is nothing inherently wrong with a UHF network; in fact, in the UK, most of the non-cable or satellite viewing is through UHF networks. The drawback is that more repeater transmitters are needed to deliver the same signal quality, meaning the economics make it difficult to cover the same population as VHF networks.

Another technical transformation is the development of digital terrestrial television. The effect of this will eventually be that all VHF transmissions will end at the time of the analogue switch-off date. When this happens, Prime will have the same signal quality and coverage as all the other free-to-air broadcasters.

Has the Prime acquisition been a good move? So far the jury is still out. Prime is now the fastest growing of the free-to-air channels in New Zealand, albeit from a very small base. Our sales team continues to take an increased share from the advertising market. Unfortunately, this good news occurred during a period when the television advertising market had decreased. In fact for the year ending 30 June 2007, the total market dropped by 3%. Until this tide has turned, shareholders will not see a meaningful contribution from this acquisition.

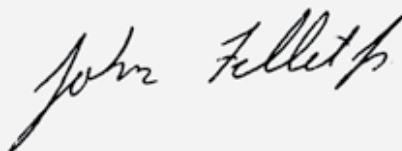
There has been interest by some shareholders for us to supply separate financial statements for Prime in order to track its progress. Normally we would have no problems with this request. Bear in mind that SKY has one of the best track records for disclosure of information. After the acquisition, Prime was stripped of its operating management and absorbed into SKY. The people at the Prime facility are now responsible for broadcasting half of our channels, not just Prime. There are programming costs directly associated with Prime, but some of the content (for example, delayed sports rights) are part of output deals for both. Its marketing, advertising sales, administrative and management teams are the same ones that work on SKY's other channels. It would be as misleading to put out a separate profit and loss account for Prime as it would to put out a separate profit and loss account for SKY Sport or SKY Movies.

There are two interesting developments that are important to us this year. The first one is the launch of high definition television (HDTV) which is the next step

in the evolution of better television viewing. HDTV is already the preferred method of viewing in Europe, America and Japan. At the time of writing this letter an HDTV business plan is being prepared for consideration by the SKY board.

The second project is the launch of the new Trans-Tasman Super 10 Netball Competition. Netball has been the most undervalued sport in New Zealand and our contract with the governing bodies for netball for New Zealand and Australia will hopefully change that. Just like the original Super 12 Rugby contract, it will take a few years to start generating its true value and we are confident that it will be a success.

I look forward to discussing SKY's performance with you at our annual meeting at the Rendezvous Hotel in Auckland on 26 October 2007.



John Fellet
CHIEF EXECUTIVE OFFICER

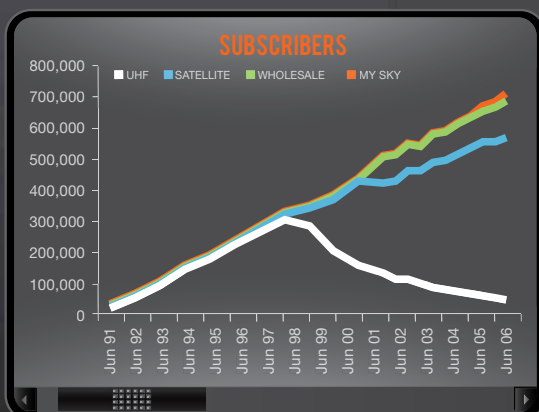


GETTING DOWN TO BUSINESS

BUSINESS OVERVIEW

SUBSCRIBERS

SKY has continued to increase its total subscriber base in the year to 30 June 2007 to a total of 711,211, adding a net 43,941 subscribers, an increase of 6.6%. This compares to the 48,102 net subscribers added in the comparative period.



During the year 8,040 subscribers migrated from the UHF to the satellite network, compared to 9,274 in the previous year. This leaves 54,346 subscribers on the UHF network at 30 June 2007, compared to 651,580 subscribers on the DBS satellite platform and Telstra's cable network. There were 5,285 "other" subscribers which include subscribers to DVD Unlimited and SKY DMX Music.

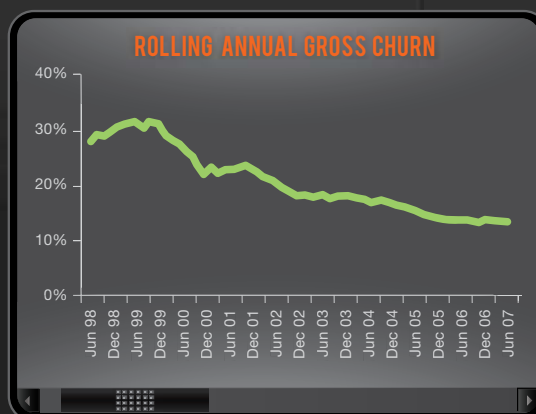
In addition to these subscribers, SKY has entered into a content supply agreement with Vodafone for its 3G mobile phones. The service was launched in February 2007 and there were 10,190 subscribers to "SKY Mobile TV" at 30 June 2007.

SKY also entered into a joint venture with Fairfax Magazines to publish a monthly SKY Sport Magazine. The magazine was launched in January 2007 and there were 8,642 subscribers to this magazine at 30 June 2007.

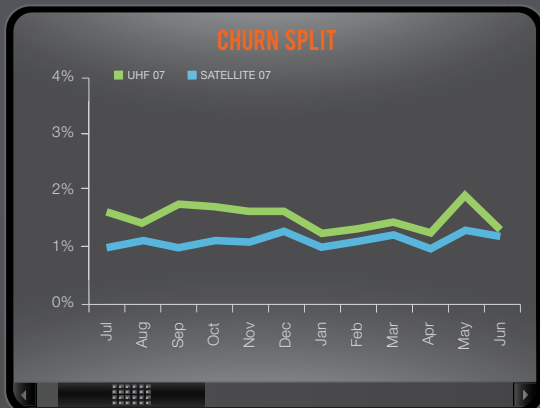
CHURN

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 12 months.

As the following graph illustrates, SKY continues to be successful in reducing gross churn, falling to 13.4% for the year from 13.5% in the previous year.

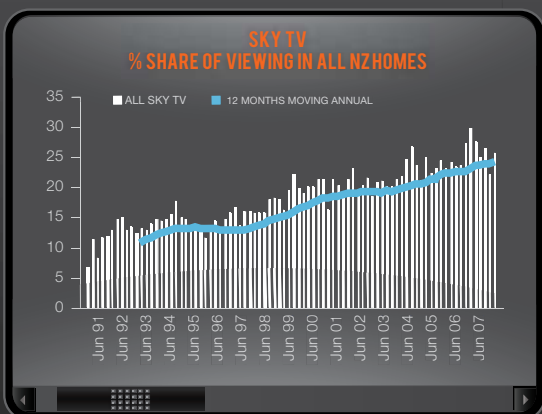


Satellite churn continues to be lower than UHF churn, as illustrated in the graph:



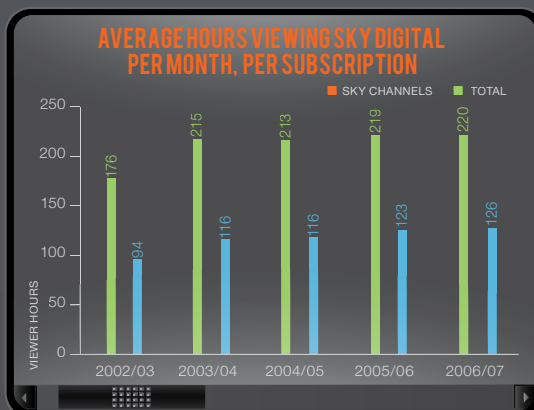
VIEWING

SKY's share of television viewing in New Zealand homes increased from 22.5% in 2006 to 25.1% in 2007. This share of viewing was achieved from the 44.5% of households that have access to SKY. The trend in SKY's viewing share over recent years is illustrated in the following graph:



SKY subscribers have increased the amount of time they spend watching SKY each month from 123 hours last year to 126 hours in 2007. A comparison of the average monthly hours spent watching SKY as a total amount of time spent watching television over the last five years is illustrated in the following graph.

A decline in the viewing on SKY's Movie channels has been offset by increases in viewing on SKY's start up channels, particularly the two Disney channels, Food TV and the new MTV, Documentary and FOX News channels.



During 2007 SKY launched four new channels on its satellite platform:

On 19 August 2006, SKY launched "MTV", a 24 hour network with localised and signature "MTV" programming. The channel focuses heavily on New Zealand artists and delivers shows that "MTV" viewers love alongside presenters who fully engage with the unique and vibrant entertainment scene in New Zealand.

In November 2006, SKY launched the "Documentary Channel" which features a unique and contemporary focus on people and popular culture via the screening of broadly-themed, critically-acclaimed and award-winning works from celebrated documentary makers. Documentaries are enjoying a new popularity. The truth really can be stranger than fiction and many outstanding film-makers are using the power of the documentary format to examine some of the most topical and challenging themes in our lives.

On 1 December 2006, SKY launched "FOX News Channel". FOX News is the highest rated news channel in the United States and the fastest growing news channel in the world. The channel offers New Zealand viewers live news from the United States and around the world 24 hours a day.



STAR PLUS was launched on 1 January 2007. STAR PLUS, the flagship channel of the STAR network in India, is the undisputed king of Hindi general entertainment in India. Launched as a fully fledged Hindi channel in 2000, today over 65 million viewers tune-in to STAR PLUS every week and spend almost twice the time on STAR PLUS than on any competing channel. In the last six years STAR PLUS has consistently been India's No 1 channel, garnering an average of 42 out of the top 50 shows across all channels in the Hindi speaking markets.

SKY continues to offer pay-per-view ("PPV") programming on its satellite platform, with the number of scheduled PPV channels increasing from 7 to 14 in October 2006. Buy rates, which measure the percentage of subscribers who purchase a title each month have remained flat at 28%. A total of 1,972,927 PPV buys were purchased in 2007 compared to 1,742,981 buys purchased in 2006.



A new "on-demand" movie service was launched to MY SKY subscribers in July 2007. This service is based on SKY downloading movies to the MY SKY hard-drive via satellite, with up to 20 movies being available to watch "on demand". Subscribers are only charged if they choose to watch one of these movies. The movies are updated on a regular basis and are priced at \$6.99, which is the same price as a scheduled PPV movie. We hope that the convenience of being able to start watching a PPV movie when it suits a subscriber will increase buy rates.

VALUE

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

service. The continued decline in the churn rate suggests that SKY continues to offer its subscribers value for money.

The monthly retail prices (incl GST) of SKY's most popular packages at 30 June were as follows:

Packages per month	2007	2006
UHF Super Value	\$33.97	\$32.97
Start up	\$45.28	\$44.16
Start up + Movies	\$65.08	\$62.78
Start up + Sports	\$61.55	\$59.30
Start up + Sports & Movies	\$79.30	\$75.93

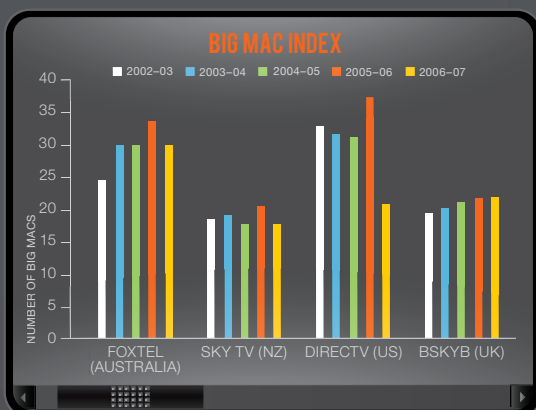
Subscribers can alter the packages that they subscribe to at any time, so there is always movement in the number of subscribers subscribing to different services. The following table summarises the percentage of subscribers to each of SKY's core services at 30 June:

Subs by Tier	2007	2006
UHF:		
Sport + Movies	52%	54%
Sport only	47%	44%
Other	1%	2%
Satellite:		
Start up + Movies + Sport	43%	47%
Start up + Sport	33%	33%
Start up + Movies	11%	8%
Other	13%	12%

There continues to be a decline in the percentage of subscribers to SKY's premium package of "Start up+Movies+Sport" from 47% to 43%, with offsetting increases in the "Start up+Movies" penetration from 8% to 11% and "Other", which is primarily Start up only subscribers, from 12% to 13%. The "Start up+Sport" penetration remains flat at 33%.

There has been growth in SKY's niche premium tier channels with Rugby channel subscribers increasing 8.3%, Arts channel subscribers increasing 30.7%, Rialto subscribers increasing 2.8% and 4,681 subscribers to the new STAR PLUS channel.

SKY also keeps track on the value of SKY relative to other pay TV companies internationally. To do this we construct a "Big Mac Index" for pay TV services.



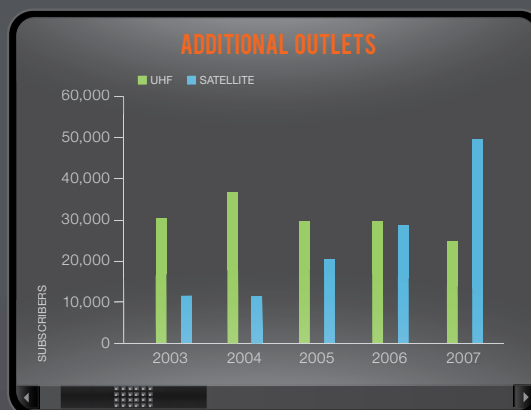
The chart above indicates the number of Big Mac hamburgers it would take to purchase a full package of pay TV services in a particular country. The chart highlights that SKY continues to have the most affordable offering based on this measure.

ACTIVATIONS

The level of installation activity is determined by a combination of the level of churn, net gain in new subscribers, migration of subscribers from the UHF to the satellite network and the number of subscribers transferring due to a change of address. The total number of customer activations in 2007 was 218,651 compared to 211,181 in 2006.

We estimate that there are around one million homes in New Zealand that have been installed with a SKY satellite dish, which represents approximately 64% of New Zealand homes. The benefit of this is that around 40% of SKY's activations are now "decoder" only installs, which are significantly cheaper than the cost of a full install that includes a dish, telephone jack and internal wiring.

SKY is continuing to market its "multi-room" service to subscribers, which enables subscribers to receive access to SKY services from a second decoder in their home. A UHF decoder which offers access to SKY Sport 1, Movies 1 and SKY 1 is available for \$9 per month (incl GST) while a second satellite decoder that offers access to all of SKY's digital channels is available for \$25 per month (incl GST). The growth in the number of multi-room outlets is as follows:



The majority of SKY's capital expenditure reflects the cost of installing new subscribers. The average full installation cost has increased from \$454 in 2006 to \$506 in 2007 due to a \$21 increase in the cost of decoders caused by a decline in the US\$/NZ\$ exchange rate and a \$31 increase in installation costs. A breakdown of these costs is as follows:

Installation costs	2007	2006	%change
Decoder	\$219	\$198	10.6
Material/labour	\$287	\$256	12.1
Total	\$506	\$454	11.5

SKY launched the new generation MY SKY personal video recorder in December 2005. These decoders have a 160 GB hard drive, two television tuners and offer features such as the ability to pause and rewind live television, record a channel while watching another channel and series link the recording of programmes directly from the electronic programme guide ("EPG"). These decoders are being installed for an up front installation fee of \$599 (incl GST). Digital subscribers who keep their old digital decoders as multi-room outlets are offered a \$100 discount on this installation fee.

At 30 June 2007, SKY had installed a total of 20,108 MY SKY units, with 59% of these subscribers retaining a second outlet.

STAFF

SKY employed a total of 777 full time equivalent ("FTE") staff at 30 June 2007, an increase of 8.8% from the 714 employed at 30 June 2006. The increase in staff has been in the following areas:

Staff	2007	2006	% INCREASE/ (DECREASE)
Advertising	66	58	14
Broadcast operations	186	172	8
Marketing	30	28	7
Programming	68	70	(3)
Subscriber management	379	343	11
Administration	48	43	11
Total	777	714	9

In addition to these staff, SKY contracts 370 FTE contractors throughout New Zealand for installation and trouble call work. SKY also hires around 250 contractors to operate the cameras and associated equipment at the 225 live sporting events that were produced by SKY in 2007.

SATELLITE

The Optus D1 satellite was successfully launched on 13 October 2006 and SKY successfully transitioned services from the old Optus B1 satellite on 15 November 2006. SKY is currently leasing five transponders on the D1 satellite, a 25% increase in the capacity leased on B1. SKY has an option to purchase an additional two transponders on the D1 satellite should it require additional capacity in the future. The new D1 satellite has more power than the old B1 satellite and will assist in reducing "rain fade", which is when SKY's satellite television signal is lost due to heavy rain.

Optus has also committed to launching two new satellites, the D2 satellite that is planned to be launched by March 2008 at the 152° E position and the D3 satellite, to be launched by March 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.

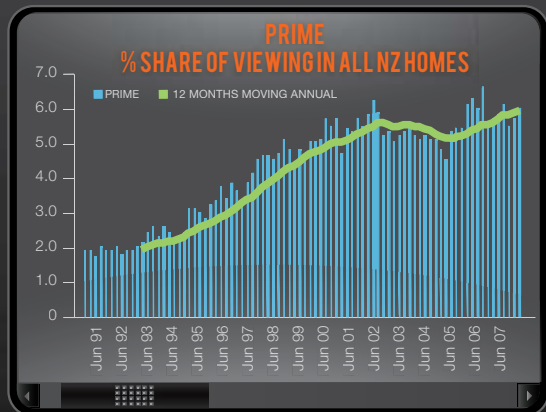
To assist in the recovery of services should there ever be a failure of the D1 satellite, SKY has developed a dual low noise block ("LNB") that can be electronically switched to the 156° E orbital location. This would enable SKY to utilise the dedicated back-up transponders that are to be included in the design of the new Optus D3 satellite without having to repoint the satellite dishes in subscriber homes.

PRIME

SKY acquired the free-to-air television channel Prime on 8 February 2006 for \$30 million. Prime was established in July 1997 by the Australian company, Prime Television Limited and had built a television audience share in New Zealand of around 5% from a UHF network that covered approximately 91% of the country.

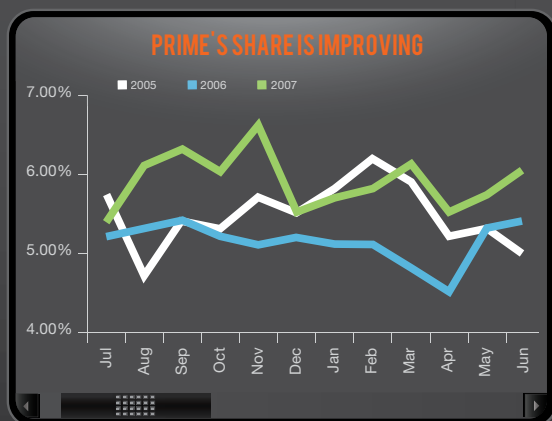
SKY's rationale for acquiring Prime was to:

- provide SKY with the opportunity to acquire "first run" television series that are sold via studio output deals;
- secure delayed free-to-air coverage of key sporting events that are screened live on SKY;
- achieve a number of operational synergies by integrating Prime's operations into SKY's existing multi-channel infrastructure;
- grow Prime's share of viewing by providing free-to-air access to content owned by SKY;
- secure access to a second site for television broadcasting.



We have been pleased with the continued increase in Prime's share of the television audience during 2007 and believe we have successfully positioned the channel as a credible fourth free-to-air television network in New Zealand. This has been assisted by our increased investment in a locally produced daily news service "Prime News – First At 5.30" and our daily sports magazine show "The Crowd Goes Wild". The highest rating shows on Prime during 2007 were Tri Nations Rugby and "Top Gear".

While the channel has increased its share of television viewing, the New Zealand television advertising market has been in decline during the year, which adversely impacts a small player like Prime. There is also a natural lag between achievement of ratings and sales, so that revenues do not fully reflect the ratings of a channel that is growing market share.



SECOND SITE

One of the benefits of acquiring Prime was that it gave SKY access to a purpose built digital television station in Albany, 30km north of SKY's television station at Mount Wellington. Rather than consolidate operations at the one site, we decided to develop the Prime television station as a second site thereby creating some diversity in SKY's operations. The Prime facility was expanded during 2006 and now has the capacity to play out up to 32 SKY channels. A second 9.2 metre uplink facility and two down-link dishes were also commissioned at Telecom's satellite earth station at Warkworth and the three sites have been linked via a 10Gb fibre.

TELEVISION STATION UPGRADE

SKY is continuing with the conversion of its 17 year old tape-based analogue television station at Mount Wellington to a digital server-based architecture, incorporating widescreen, Dolby 5.1 sound and high-definition ("HD") capability. The new station is planned to be commissioned during the 2008 financial year.

DVD UNLIMITED

SKY purchased the online DVD rental business, DVD Unlimited, in October 2004. The current business model enables subscribers to select DVD and game titles from the DVD Unlimited website and depending on the package that is subscribed to, a subscriber can access one to ten titles at any time. Subscribers can keep the DVDs as long as they want to and there are no late fees. When a title is returned another title is posted to the subscriber from their selected list.

The current business model relies on the postal service to distribute the rented DVDs by mail. As broadband networks become faster, cheaper and more highly penetrated, we believe that the DVD Unlimited business will migrate to a full online service with movies being downloaded or streamed to subscribers.

We continue to be pleased with the performance of the business with our subscriber base growing by 28.6% during the year. We are also continuing to benefit from the knowledge we are gaining about the purchasing habits and interests of subscribers to this type of movie service.

MOBILE VIDEO SERVICES

SKY launched a mobile television service on the Vodafone 3G network in February 2007. For a weekly subscription of \$2.50 (incl GST) subscribers get access to the following SKY television channels, specifically programmed for mobile phone access, including:

- MTV
- Cartoon Network
- SKY Sport Highlights
- SKY News
- E!
- Discovery
- CNN

In addition to these channels, subscribers can also purchase live sports events such as All Black rugby and also "Adult" content, on a pay-per-view basis. As at 30 June 2007, there were 10,190 subscribers to this SKY mobile service.

IPTV

Internet Protocol Television (IPTV) is a technology that enables video content to be distributed over a broadband network using internet protocol software. It is the next generation of pay television technology that will enable subscribers to have much greater access to real time on-demand content. This cannot be achieved on a satellite platform which is best suited to the broadcast distribution of content to a large number of viewers, although we have developed an "on demand" offering for MY SKY subscribers that utilises the hard drive storage capacity of the MY SKY decoder.

SKY is continuing to progress its plans to launch a hybrid satellite/IPTV decoder and is continuing its discussions with players such as Telecom, TelstraClear, Vodafone and others as to how we might work together to enable access to these IPTV services. The next generation of MY SKY decoder that is due for launch at the end of the 2008 financial year will have a broadband ethernet connection that will enable IPTV services to be offered when broadband networks are sufficiently developed.

FREEVIEW

The new FreeView satellite platform was launched on 2 May 2007. At this stage there are no new channels on the platform and FreeView has had minimal impact on our business.

We understand the digital terrestrial platform that will cover around 70% of the country will be launched in February 2008. Viewers will be required to purchase a set top box to receive the terrestrial FreeView signal.

The government has announced that it will provide TVNZ with an additional \$79 million of funding over five years to launch two new FreeView channels. While the addition of new channels will make FreeView a more attractive proposition than it currently is, these additional channels will further fractionalise television viewing making it more difficult for free-to-air networks to secure advertising revenues.

Prime has not been offered the same subsidy that the other free-to-air networks have to join FreeView and therefore at this stage, we have not joined the FreeView platform. We will continue to monitor the uptake of FreeView and may join in the future if this can be supported on a financial basis.



STILL RAISING THE VOLUME

FINANCIAL OVERVIEW

SUMMARY

SKY has earned a net profit after tax ("NPAT") of \$77.9 million for the year ended 30 June 2007, a 29% increase on the previous year's net profit after tax.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") increased by 0.1% to \$249.4 million. This increase is lower than the increase in NPAT due to the accounting treatment of the new Optus D1 satellite lease. This lease is treated as an operating lease in SKY's accounts whereas the lease on the previous B1 satellite was treated as a finance lease. SKY's 2007 results include \$18.8 million of satellite lease costs whereas the comparative year recognised these costs as interest and depreciation costs under the finance lease, with these costs being accounted for "below" the calculation of EBITDA. If we adjust for this, the 2007 EBITDA grew 8.3%.

The results are summarised as follows:

FOR THE YEARS ENDED 30 JUNE IN NZD MILLIONS	2007	2006	% INCREASE/ (DECREASE)
Financial performance data			
Total revenue	618.5	548.9	12.7
Total operating expenses	369.1	301.2	22.5
EBITDA	249.4	247.7	0.7
Less			
Depreciation and amortisation	85.0	106.1	(19.9)
Net interest expense and financing charges	46.6	50.6	(8.0)
Unrealised losses/(gains) on currency	—	1.0	—
Profit before income tax	117.8	90.0	30.9
Income tax expense	39.9	29.9	33.4
Profit after tax	77.9	60.1	29.6

A more detailed commentary on these results is provided over the page.

REVENUE ANALYSIS

SKY's total revenue increased by 12.7% to \$618.5 million, as follows:

FOR THE YEARS ENDED 30 JUNE IN NZD MILLIONS	2007	2006	% INCREASE/ (DECREASE)
Residential	477.6	428.2	11.5
Commercial	32.4	29.1	11.3
SkyWatch	11.5	10.7	7.5
Total subscription revenue	521.5	468.0	11.4
Advertising	63.4	47.3	34.0
Installation, programme sales and other	33.6	33.6	(0.0)
Total other revenue	97.0	80.9	19.9
Total revenue	618.5	548.9	12.7

Residential subscription revenue increased 11.5% to \$477.6 million reflecting a 6.6% increase in subscribers and a 3.8% increase in average revenue per subscriber ("ARPU"). ARPU is a measure of the average revenue that SKY earns from subscribers each month.

The following chart provides a summary of the increase in ARPU in 2007:

AVERAGE MONTHLY REVENUE PER RESIDENTIAL SUBSCRIBER (excl GST)

IN NZD	2007	2006	% INCREASE/ (DECREASE)
UHF	39.68	39.51	0.4
DBS excluding wholesale	64.88	63.13	2.8
DBS wholesale	50.88	48.39	5.1
Total UHF and DBS excluding wholesale	62.27	60.01	3.8
Total UHF and DBS including wholesale	60.50	58.30	3.8

Commercial revenue is the revenue earned from SKY installations at hotels, motels, restaurants and bars throughout New Zealand. This revenue increased 11.3% to \$32.4 million in 2007, reflecting a 5.5% increase in subscribers and an increasing percentage of subscribers migrating to the satellite service where additional services are available for purchase.

SkyWatch is SKY's monthly programme guide that is sold for \$2.45 per month (incl GST). Revenue from the guide increased 7.5% to \$11.5 million. There were 410,042 subscribers to SkyWatch at 30 June 2007, an increase of 2.5% from the 399,910 subscribers at 30 June 2006.



Advertising sales revenue increased 34% to \$63.4 million in 2007. This increase is attributable to a full 12 months of revenue from Prime of \$22.9 million compared to the \$7.1 million of revenue earned in the five months that the channel was owned in the comparative period. Advertising revenue from SKY's pay television channels was up 0.7% to \$40.5 million from \$40.2 million in the previous year. This is a reasonable result because, while there was a 6.5% increase in viewing on the SKY platform in 2007, the total television advertising market declined by 5% to \$636 million¹.

Installation, programme sales and other revenues decreased by 0.3% to \$33.5 million in 2007. A \$2.5 million increase in MY SKY installation revenue to \$6.3 million and \$0.5 million increase in DVD Unlimited revenues were offset by the loss of \$3.3 million of on-sold programme rights that SKY previously received from the sale of its free-to-air sports rights, which are now played on Prime.

EXPENSE ANALYSIS

A further breakdown of SKY's operating expenses for 2007 and 2006 is provided below:

IN NZD MILLIONS	2007	2007 % OF REVENUE	2006	2006 % OF REVENUE	% INCREASE/ (DECREASE)
Programming	204.6	33.1	177.6	32.4	15.2
Subscriber management	41.7	6.7	38.1	6.9	9.7
Broadcasting and infrastructure	51.4	8.3	24.0	4.4	114.2
Sales and marketing	37.4	6.0	32.7	6.0	14.4
Advertising	18.7	3.0	14.0	2.6	33.6
Corporate	15.3	2.5	14.8	2.7	3.4
Depreciation and amortisation	85.0	13.7	106.1	19.3	(19.9)
Total operating expenses	454.1	73.4	407.3	74.2	11.5

Programming costs comprise both the costs of purchasing programme rights and also programme operating costs. Programme rights costs include the costs of sports rights, pass-through channel rights (eg Disney channel, Documentary channel), 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	2007	2006
Programme rights	166.6	146.0
Programme operations production	38.0	31.6
Total	204.6	177.6

SKY's programming expenses have increased from 32.4% to 33.1% of revenue in 2007. SKY's 2007 results include a full year of Prime's result, which includes \$15.7 million of programming costs, which is 68% of the channel's revenue. The comparative period included \$4.9 million of programming cost for Prime, which was 69% of their revenue for the 5 month period.

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.

¹ Comparison of 1 April 2005 – 31 March 2006 and 1 April 2006 – 31 March 2007.
Viewing is all people aged 25 – 54 18:00 to 22:30. Source: Nielsen Media Research.

The Board's policy is to hedge a minimum of 85% of the forecast exposures over 0 to 12 months and 25% to 45% of variable exposures over 13 to 36 months. Fixed price contracts denominated in foreign currencies are at least 70% hedged for a minimum of 36 months from the time they are entered into.

In 2007, SKY made US dollar operating expense payments at an average exchange rate of 63.5 cents compared to the 61.8 cent rate in the previous year. Based on the 2007 results, a one cent movement in the US\$/NZ\$ rate would have affected operating costs by around NZ\$1.2 million.

In 2007, SKY's total rights' costs of NZ\$166.6 million included US\$69.5 million of rights denominated in US\$. If these US\$ costs are converted to NZ dollars at the average US\$/NZ\$ exchange rate of 63.5 cents, it equates to NZ\$109.4 million, which means 66% of SKY's programme rights are paid in US dollars. This is a decrease from the 72% of rights that were estimated to have been paid in US\$ in 2006.

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' costs typically require SKY to meet the costs of producing any live games in New Zealand, which is disclosed as the programme operations' costs in the table above. Part of these costs can also be considered as fixed. While these costs are fixed, they can increase over time however as SKY adds new sport content to its platform, for example the recently announced Trans-Tasman Netball Cup. The rights costs themselves can also change when contracts are renewed.

The programme rights' and operations costs for channels programmed and built by SKY such as SKY 1 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 2007, 53% of SKY's total programming costs of \$204.6 million could be regarded as fixed costs, compared to 54% of the \$177.6 million of programming costs in 2006.

SKY's programme operations' costs increased by 19.9% to \$38.0 million in 2007. This reflected an increase in the number of rugby games produced in New Zealand under the expanded SANZAR agreement and the new Air New Zealand Cup domestic rugby competition, access fees for the ICC World Cup, as well as SKY's coverage of the 2007 domestic basketball league. It also includes a full year of Prime's programme operations costs that totalled \$5.2 million, compared to \$1.5 million in the previous year.

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

In 2007, subscriber management costs increased 9.7% to \$41.7 million. This increase is higher than the 6.6% growth in subscribers due to additional call centre activity and trouble calls due to a technical issue associated with a software upgrade to SKY's set top box population.

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 14% to \$37.4 million in 2007.

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 33.6% to \$18.7 million, primarily as a result of the increased sales commission paid on increased advertising revenue.

Broadcasting and infrastructure costs consist of transmission and linking costs for transmitting SKY and Prime's UHF signals from its studios in Auckland to other locations in New Zealand and the costs of operating SKY's television stations at Mount Wellington and Albany. From November 2006, the costs of leasing five transponders on the new Optus D1 satellite have also been included in these costs.

Broadcast and infrastructure costs increased by \$27.4 million (114%) to \$51.4 million. Of this, \$18.8 million relates to the new D1 transponder lease costs. If the 2007 costs are adjusted for this, broadcast and operating costs increased by \$8.6 million (35.8%) primarily as a result of the costs of operating the second Albany site for a full year, the costs of adding new channels including SKY's new mobile phone offering, a full year of the additional support costs for the new MY SKY decoder, a full year of Prime UHF linking costs, and additional IT support costs for the systems located at Mount Wellington and Albany.

Corporate costs include the overhead costs relating to corporate management and the finance department. These costs have increased by 3.4% to \$15.3 million.

Depreciation and amortisation costs includes depreciation charges for subscriber equipment including aerials, satellite dishes and decoders owned by SKY and fixed assets such as television station facilities. There are no depreciation costs associated with SKY's satellite transponder lease from November 2006 as the new D1 lease is treated as an operating lease rather than a finance lease.

Depreciation and amortisation costs decreased by \$21.1 million (19.9%) to \$85.0 million primarily due to transponder depreciation costs reducing from \$20.6 million in 2006 to \$5.1 million in the 2007 year.

Interest and financing costs have reduced by 7.9% to \$46.4 million due to total interest bearing debt reducing from \$605 million at 30 June 2006 to \$535 million at 30 June 2007, a lower average interest rate on debt and finance lease interest costs ceasing in November 2006. The weighted average interest rate cost for SKY has been as follows:

	2007	2006
Bank loans	7.7%	7.9%
Bonds and capital notes	8.9%	9.8%
Combined weighted average	8.0%	8.2%

Taxation expense has increased by \$10 million (34%) to \$39.9 million reflecting the 31% increase in pre-tax profit and a \$0.8 million reduction in the deferred tax asset due to the recently announced reduction in corporate tax rates to 30% from 33%.

CAPITAL EXPENDITURE

SKY's capital expenditure over the last 5 years is summarised as follows:

IN NZD MILLIONS	2007	2006	2005	2004	2003
Satellite transponder lease	–	–	2.4	–	19.7
Subscriber equipment	24.0	25.9	21.6	14.5	31.1
Installation costs	38.0	36.4	36.6	38.2	43.3
Digital expansion	0.9	0.7	0.8	2.2	1.5
Building	2.2	1.7	5.4	–	–
PVR project	–	9.0	5.5	–	–
Broadcast upgrade	12.3	8.1	–	–	–
Interactive applications	–	–	–	0.2	0.7
Renewal rights	–	–	–	–	7.6
Other	4.0	5.0	3.7	2.3	1.9
Total capital expenditure	81.4	86.8	76.0	57.4	105.8

Capital expenditure decreased by \$5.4 million (6.2%) in 2007 to \$81.4 million. The capitalised cost of installing new subscribers represents 76% of SKY's capital expenditure. SKY spent a further \$12.3 million on the upgrade of SKY's television station, with \$3.8 million of this being spent at the Albany facility.

1 Capital expenditure for 2006 does not include assets purchased from Prime with a value of \$11.2 million.



BOARD OF DIRECTORS



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 and other subsidiaries of The News Corporation Limited, Foxtel Management Pty Limited and Premier Media Group Pty Limited. He holds a degree in commerce from the University of New South Wales.



ROBERT BRYDEN

DEPUTY CHAIRMAN

Mr Bryden was appointed a director in 1990 of SKY and deputy chairman in February 2001. He is the managing director of Todd Capital Limited. He is also a director of Todd Communications Limited and other subsidiaries of the Todd Corporation Limited, Crown Castle Australia Holdings Pty Limited, Crown Castle Australia Pty Limited, Landco Limited and Provenco Group Limited. Mr Bryden holds a BCA from Victoria University in Wellington.



ALBERT (BARRIE) DOWNEY

DIRECTOR

Mr Downey has been a director of SKY since 1991. He was chairman from 1991 to 1997. Mr Downey has spent most of his working career in the Fletcher Challenge Group where he became executive director in 1988. He was awarded the CBE and is a Fellow of the Institute of Chartered Accountants of New Zealand and New Zealand Institute of Forestry. Mr Downey is a director of Salvus Strategic Investments Limited.





JOHN FELLET

DIRECTOR AND CHIEF EXECUTIVE

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



MICHAEL MILLER

DIRECTOR

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



JOHN HART

DIRECTOR

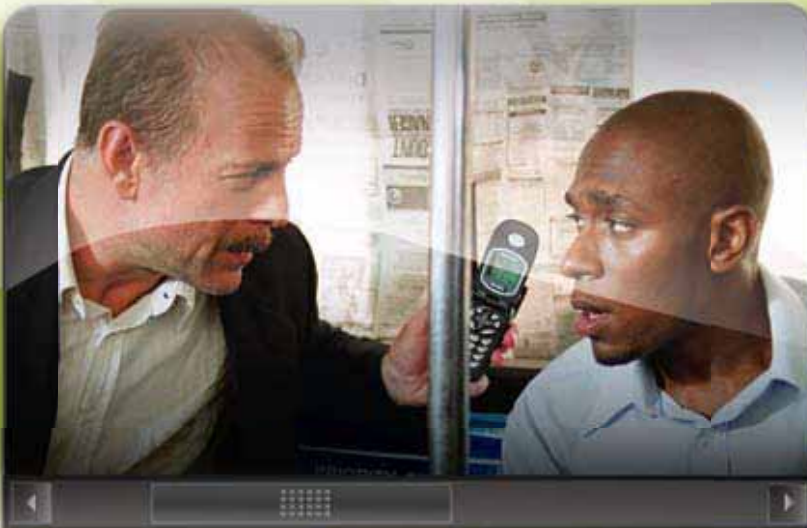
Mr Hart was appointed a director of SKY in October 1997. He was also the former coach of the All Blacks and an international rugby selector. Mr Hart was employed by Fletcher Challenge Limited from 1966 to 1995 in a variety of positions including employee relations director. He currently manages his own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



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, Broadway Industries Limited and subsidiaries, Ledger Acquisitions Limited, Matrix Security Group Limited, Infratil Limited, Property for Industry Limited, Fraser MacAndrew Ryan Limited and Media Metro Limited.



2007

SKY NETWORK TELEVISION LIMITED
FINANCIALS



FINANCIAL TRENDS STATEMENT

The selected consolidated financial data set out below has 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.

The figures for the 2007, 2006 and 2005 years comply with NZ IFRS. They reflect the results of the merger between SKY and INL and as such the comparative figures for 2005 are those of INL. SKY (premerger) figures have not been adjusted for NZ IFRS. As such the figures for 2007, 2006 and 2005 prepared under NZ IFRS are not comparable to the prior year.

INCOME STATEMENT – FIVE YEAR SUMMARY

	NZ IFRS			SKY (PREMERGER)		
FOR THE YEARS ENDED 30 JUNE IN NZD 000	2007 ⁽³⁾	2006 ⁽³⁾	2005 ⁽³⁾	2005	2004	2003
Total revenue	618,458	548,954	492,359	489,381	440,617	391,272
Total operating expenses ⁽¹⁾	369,094	301,216	272,497	258,853	253,395	240,466
EBITDA⁽²⁾	249,364	247,738	219,862	230,528	187,222	150,806
Less/(Plus)						
Depreciation and amortisation	84,988	106,077	111,304	119,303	128,065	124,083
Net interest expense and financing charges	46,550	50,615	(4,672)	15,238	22,160	27,971
Unrealised (gains)/losses on currency	(144)	1,003	2,130	2,130	1,713	(1,942)
Share of loss from equity accounted investee	202	–	–	–	–	–
NET PROFIT BEFORE INCOME TAX	117,768	90,043	111,100	93,857	35,284	694

BALANCE SHEET – FIVE YEAR SUMMARY

	NZ IFRS			SKY (PREMERGER)		
AS AT 30 JUNE IN NZD 000	2007 ⁽³⁾	2006 ⁽³⁾	2005 ⁽³⁾	2005	2004	2003
Property, plant, equipment and non-current intangibles	237,440	241,862	256,632	273,106	315,235	384,812
Goodwill	1,422,115	1,422,115	829,990	–	–	–
Total assets	1,780,181	1,818,831	1,476,974	409,580	407,560	477,394
Total debt and lease obligations	531,415	610,017	146,034	146,034	208,764	327,705
Working capital ⁽⁴⁾	(22,580)	19,814	282,245	(13,572)	(35,085)	(20,069)
Total liabilities	664,870	720,062	239,387	262,688	316,135	421,189
Total equity	1,115,311	1,098,769	1,237,587	146,892	91,425	56,205

(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) The years for 2007, 2006 and 2005 are prepared in accordance with NZ IFRS and as such are not prepared on the same basis as the figures prior to the adoption of NZ IFRS on 1 July 2005. Years relating to SKY (premerger) have not been adjusted.

(4) Working capital excludes current borrowings and capital notes.

FINANCIAL TRENDS STATEMENT

CONTINUED

OTHER FINANCIAL DATA (UNAUDITED)

	NZ IFRS			SKY (PREMERGER)		
FOR THE YEARS ENDED 30 JUNE IN NZD 000	2007 ⁽³⁾	2006 ⁽³⁾	2005 ⁽³⁾	2005	2004	2003
Capital expenditure (accrual basis) ⁽¹⁾	81,416	86,854	76,020	76,020	57,362	105,812
Free cash inflows/(outflows) ⁽²⁾	92,410	(56,187)	437,602	145,867	117,746	31,995

(1) This does not include assets purchased as part of the acquisition of Prime during 2006.

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

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

AS AT 30 JUNE	2007	2006	2005	2004	2003
TOTAL UHF, DBS AND OTHER SUBSCRIBERS					
Total number of households in New Zealand ⁽¹⁾	1,566,800	1,548,700	1,530,300	1,511,600	1,491,000
SUBSCRIBERS – UHF:					
Residential	53,679	64,927	77,762	91,286	117,682
Commercial	667	780	888	1,069	1,639
TOTAL UHF	54,346	65,707	78,650	92,355	119,321
SUBSCRIBERS – DBS (SATELLITE):					
Residential	529,830	492,381	442,385	394,190	340,384
Residential – wholesale ⁽²⁾	113,961	97,812	89,654	83,890	77,973
Commercial	7,789	7,234	6,437	5,437	4,334
TOTAL DBS	651,580	597,427	538,476	483,517	422,691
SUBSCRIBERS – OTHER:⁽³⁾	5,285	4,136	2,042	730	879
TOTAL SUBSCRIBERS	711,211	667,270	619,168	576,602	542,891

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

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

(3) Includes subscribers to programmed music, via SKY's subsidiary company, SKY DMX Music Limited, and DVD Unlimited.

FINANCIAL TRENDS STATEMENT

CONTINUED

Percentage of households subscribing to the SKY network (unaudited):

AS AT 30 JUNE	2007	2006	2005	2004	2003
Total UHF and DBS – residential	44.5%	42.3%	39.8%	37.7%	36.0%
Gross churn rate ⁽¹⁾	13.4%	13.5%	15.8%	17.1%	17.6%
Average monthly revenue per residential subscriber:					
UHF	39.68	39.51	39.42	40.68	40.36
DBS excluding wholesale	64.88	63.13	62.49	61.33	59.35
DBS wholesale	50.88	48.39	46.27	41.86	36.94
Total UHF and DBS excluding wholesale	62.27	60.01	58.68	56.68	54.65
Total UHF and DBS including wholesale	60.50	58.30	56.86	54.55	51.83
Additional Outlets					
UHF	24,400	29,503	29,417	35,955	30,501
Satellite	49,351	28,806	20,252	11,400	11,097
TOTAL	73,751	58,309	49,669	47,355	41,598

(1) 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

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 statement of the Company and the Group as at 30 June 2007 and its balance sheet 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.

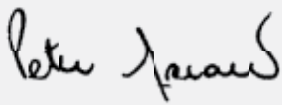
The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

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 2007.

The board of directors of Sky Network Television Limited authorise these financial statements for issue on 16 August 2007.

For and on behalf of the board of directors



Peter Macourt
Chairman



Robert Bryden
Director

Date: 16 August 2007

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2007

IN NZD 000	NOTES	GROUP 30 JUN 2007	GROUP 30 JUN 2006	COMPANY 30 JUN 2007	COMPANY 30 JUN 2006
REVENUE					
Residential satellite subscriptions		433,402	381,023	433,402	381,023
Other subscriptions		88,064	87,071	88,064	87,071
Installation		20,920	18,134	20,913	18,130
Advertising		63,437	47,341	63,437	47,341
Other income		12,635	15,385	11,888	14,684
		618,458	548,954	617,704	548,249
EXPENSES					
Programme rights		166,667	145,992	166,460	145,806
Programme operations		37,978	31,678	37,978	31,678
Subscriber management	4	41,716	38,001	41,447	37,741
Sales and marketing	4	37,372	32,687	37,372	32,687
Advertising		18,657	14,032	18,657	14,032
Broadcasting and infrastructure	4	51,357	24,031	51,228	23,902
Depreciation and amortisation	6	84,988	106,077	84,898	105,965
Corporate	4	15,347	14,795	15,522	14,794
		454,082	407,293	453,562	406,605
OPERATING PROFIT		164,376	141,661	164,142	141,644
FINANCIAL (EXPENSE)/INCOME					
Interest expense		(46,377)	(50,399)	(63,991)	(50,855)
Other financial income	30	–	–	–	951,442
Realised exchange (loss)/gain		(173)	(216)	(173)	(216)
Unrealised exchange gain/(loss)		144	(1,003)	144	(1,003)
	7	(46,406)	(51,618)	(64,020)	899,368
Share of loss from equity accounted investee	15	(202)	–	–	–
PROFIT BEFORE TAX		117,768	90,043	100,122	1,041,012
Income tax expense	8	39,913	29,892	34,087	29,726
PROFIT AFTER TAX		77,855	60,151	66,035	1,011,286
EARNINGS PER SHARE					
Basic and diluted earnings per share (cents)	9	20.01	15.46	–	–

BALANCE SHEET

AS AT 30 JUNE 2007

IN NZD 000	NOTES	GROUP 30 JUN 2007	GROUP 30 JUN 2006	COMPANY 30 JUN 2007	COMPANY 30 JUN 2006
CURRENT ASSETS					
Cash and cash equivalents		16,602	42,394	16,498	42,329
Trade and other receivables	10	52,292	48,027	52,418	49,897
Programme rights	11	23,418	23,804	23,418	23,804
Derivative financial instruments	20	364	8,973	364	8,973
Income tax receivable		1,728	4,657	1,714	4,799
		94,404	127,855	94,412	129,802
NON-CURRENT ASSETS					
Property, plant and equipment	12	212,117	212,378	211,933	212,200
Other intangible assets	13	25,323	29,484	25,323	29,484
Shares in subsidiary companies	14	–	–	5	241,710
Investments in equity accounted investees	15	107	–	107	–
Goodwill	16	1,422,115	1,422,115	1,422,115	1,422,115
Derivative financial instruments	20	13,547	20,989	13,547	20,989
Deferred tax	17	12,568	6,010	12,568	6,008
Loans from subsidiary companies	30	–	–	–	1,008,993
		1,685,777	1,690,976	1,685,598	2,941,499
TOTAL ASSETS		1,780,181	1,818,831	1,780,010	3,071,301
CURRENT LIABILITIES					
Trade and other payables	18	102,496	106,602	102,245	108,580
Borrowings	19	–	6,055	–	6,055
Derivative financial instruments	20	14,488	1,439	14,488	1,439
Capital notes	19	–	105,035	–	105,035
		116,984	219,131	116,733	221,109
NON-CURRENT LIABILITIES					
Borrowings	19	334,195	498,927	334,195	498,927
Bonds	19	197,220	–	197,220	–
Derivative financial instruments	20	15,294	169	15,294	169
Provisions	21	1,177	1,835	1,177	1,835
Loans to subsidiary companies	30	–	–	–	1,269,388
		547,886	500,931	547,886	1,770,319
TOTAL LIABILITIES		664,870	720,062	664,619	1,991,428
EQUITY					
Share capital	22	577,403	577,403	577,403	577,403
Hedging reserve	23	[8,457]	17,832	[8,457]	17,832
Retained earnings	24	546,365	503,534	546,445	484,638
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		1,115,311	1,098,769	1,115,391	1,079,873
TOTAL EQUITY AND LIABILITIES		1,780,181	1,818,831	1,780,010	3,071,301

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2007

IN NZD 000	NOTES	SHARE CAPITAL	HEDGING RESERVE	RETAINED EARNINGS	MINORITY INTEREST	TOTAL EQUITY
GROUP						
Balance at 1 July 2006		577,403	17,832	503,534	–	1,098,769
Profit for the period		–	–	77,855	–	77,855
Fair value losses net of tax	23	–	(26,289)	–	–	(26,289)
TOTAL RECOGNISED INCOME FOR THE YEAR		–	(26,289)	77,855	–	51,566
Dividend paid		–	–	(35,024)	–	(35,024)
Supplementary dividends		–	–	(3,798)	–	(3,798)
Foreign investor tax credits		–	–	3,798	–	3,798
BALANCE AT 30 JUNE 2007		577,403	(8,457)	546,365	–	1,115,311
Balance at 1 July 2005		222,055	–	985,454	30,078	1,237,587
Adoption of NZ IAS 32 and NZ IAS 39	23/24	–	(7,209)	(309)	–	(7,518)
Minority share of adjustments	24/25	–	–	1,627	(1,627)	–
AS RESTATED 1 JULY 2005		222,055	(7,209)	986,772	28,451	1,230,069
MERGER TRANSACTIONS						
Exchange INL shares for SKY shares	22/24	(119,384)	–	(529,780)	–	(649,164)
Issue of shares to SKY (premerger) shareholders	22/26	484,395	–	–	–	484,395
Disposal of minority interest	25	–	–	–	(26,494)	(26,494)
Cost of share issue	22	(625)	–	–	–	(625)
Profit for the period		586,441	(7,209)	456,992	1,957	1,038,181
Fair value gains net of tax	23	–	–	60,151	–	60,151
		–	25,041	–	–	25,041
TOTAL RECOGNISED INCOME FOR THE YEAR		–	25,041	60,151	–	85,192
Termination of executive share options	22/24/25	(9,038)	–	1,957	(1,957)	(9,038)
Dividend paid		–	–	(15,566)	–	(15,566)
Supplementary dividends		–	–	(1,709)	–	(1,709)
Foreign investor tax credits		–	–	1,709	–	1,709
BALANCE AT 30 JUNE 2006		577,403	17,832	503,534	–	1,098,769

STATEMENT OF CHANGES IN EQUITY

CONTINUED

FOR THE YEAR ENDED 30 JUNE 2007

IN NZD 000	NOTES	SHARE CAPITAL	HEDGING RESERVE	RETAINED EARNINGS	TOTAL EQUITY
COMPANY					
Balance at 1 July 2006		577,403	17,832	484,638	1,079,873
Gain on amalgamation of subsidiaries	14	–	–	30,796	30,796
Profit for the period		–	–	66,035	66,035
Fair value losses net of tax	23	–	(26,289)	–	(26,289)
TOTAL RECOGNISED INCOME FOR THE YEAR		–	(26,289)	96,831	70,542
Dividend paid		–	–	(35,024)	(35,024)
Supplementary dividends		–	–	(3,798)	(3,798)
Foreign investor tax credits		–	–	3,798	3,798
BALANCE AT 30 JUNE 2007		577,403	(8,457)	546,445	1,115,391
2006					
Balance at 1 July 2005		–	–	–	–
Merger transactions		577,403	(7,209)	(511,082)	59,112
Profit for the period		–	–	1,011,286	1,011,286
Fair value gains net of tax	23	–	25,041	–	25,041
TOTAL RECOGNISED INCOME FOR THE YEAR		–	25,041	1,011,286	1,036,327
Dividend paid		–	–	(15,566)	(15,566)
Supplementary dividends		–	–	(1,709)	(1,709)
Foreign investor tax credits		–	–	1,709	1,709
BALANCE AT 30 JUNE 2006		577,403	17,832	484,638	1,079,873

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2007

IN NZD 000	NOTES	GROUP 30 JUN 2007	GROUP 30 JUN 2006	COMPANY 30 JUN 2007	COMPANY 30 JUN 2006
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from:					
Customers		613,278	547,225	612,428	546,537
Interest received		2,336	3,036	2,336	3,036
		615,614	550,261	614,764	549,573
Cash was applied to:					
Suppliers and employees		(315,505)	(253,096)	(314,820)	(252,338)
Related parties		(51,423)	(46,063)	(51,423)	(46,063)
Interest paid		(46,346)	(48,809)	(46,346)	(48,809)
Net GST paid		(297)	(778)	(284)	(735)
Income tax paid		(26,924)	(33,553)	(26,907)	(33,528)
		(440,495)	(382,299)	(439,780)	(381,473)
NET CASH FROM OPERATING ACTIVITIES		175,119	167,962	174,984	168,100
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		95	283	95	283
Purchase of SKY (premerger) minority interest	26	–	(108,004)	–	(108,004)
Acquisition of assets of Prime Television					
New Zealand Limited	26	–	(29,992)	–	(29,992)
Acquisition of property, plant, equipment and intangibles		(82,804)	(86,436)	(82,708)	(86,390)
NET CASH USED IN INVESTING ACTIVITIES		(82,709)	(224,149)	(82,613)	(224,103)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings – bank loan		–	760,000	–	760,000
Repayment of borrowings – bank loan		(165,000)	(260,000)	(165,000)	(260,000)
Repurchase and cancellation of INL shares		–	(649,164)	–	(649,164)
Proceeds from bond issue ⁽¹⁾		163,140	–	163,140	–
Repayment of capital notes ⁽¹⁾	19	(68,449)	(5,869)	(68,449)	(5,869)
Payment of share issue costs	22	–	(625)	–	(625)
Payment of bond issue costs		(2,991)	–	(2,991)	–
Termination of executive share options	22	–	(9,038)	–	(9,038)
Payment of bank facility fees		(25)	(80)	(25)	(80)
Payment of finance lease liabilities		(6,055)	(24,424)	(6,055)	(24,424)
Dividends paid		(38,822)	(17,275)	(38,822)	(17,275)
NET CASH USED IN FINANCING ACTIVITIES		(118,202)	(206,475)	(118,202)	(206,475)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(25,792)	(262,662)	(25,831)	(262,478)
Cash and cash equivalents at beginning of year		42,394	305,056	42,329	304,807
CASH AND CASH EQUIVALENTS AT END OF YEAR		16,602	42,394	16,498	42,329

FOOTNOTES

[1] Under the terms of the bond issue dated 11 September 2006, \$36.9 million of the \$105.3 million of capital notes outstanding were converted to bonds.

STATEMENT OF CASH FLOWS

CONTINUED

FOR THE YEAR ENDED 30 JUNE 2007

IN NZD 000	NOTES	GROUP 30 JUN 2007	GROUP 30 JUN 2006	COMPANY 30 JUN 2007	COMPANY 30 JUN 2006
RECONCILIATION OF OPERATING CASH FLOWS WITH NET PROFIT					
Net profit		77,855	60,151	66,035	1,011,286
PLUS/(LESS) NON-CASH ITEMS:					
Depreciation and amortisation	6	84,988	106,077	84,898	105,965
Unrealised foreign exchange (gain)/loss	7	(144)	1,003	(144)	1,003
Bad debts and movement in provision for doubtful debts		1,832	1,448	1,832	1,447
Amortisation of bond/capital notes issue costs	7	484	934	484	934
Movement in deferred tax	8	6,261	478	6,259	478
Accrued interest receivable – related parties	30	–	–	(38,480)	(1,769)
Accrued interest payable – related parties	30	–	–	56,095	2,226
Share of loss/impairment of equity accounted investee	15	202	–	202	–
Other non-cash items		135	(695)	135	(695)
ITEMS CLASSIFIED AS INVESTING ACTIVITIES:					
Gain on disposal of assets		(110)	(134)	(110)	(134)
Gain on transfer of subsidiary	30	–	–	–	(951,442)
MOVEMENT IN WORKING CAPITAL ITEMS:					
Increase in receivables		(6,356)	(6,708)	(6,358)	(6,694)
Increase in payables		2,859	13,501	2,837	13,740
Increase/(decrease) in provision for tax		6,727	(4,123)	913	(4,275)
Decrease/(increase) in programme rights		386	(3,970)	386	(3,970)
NET CASH FROM OPERATING ACTIVITIES		175,119	167,962	174,984	168,100

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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 2007 comprise the Company, Sky Network Television Limited and its subsidiaries.

On 27 June 2005, the High Court approved a scheme of arrangement to take effect on 1 July 2005, where a newly formed company, Merger Company 2005 Limited ("MergeCo") acquired all of the ordinary shares of the public listed companies Independent Newspapers Limited ("INL") and Sky Network Television Limited (SKY (premerger)). The three companies were then amalgamated with MergeCo being the surviving company. INL shareholders received 0.836 shares in MergeCo and \$1.78 in cash in exchange for each INL share. SKY (premerger) shareholders, other than INL, received one share in MergeCo and \$1.28 in cash for each SKY (premerger) share held. This resulted in MergeCo issuing a total of 389,139,785 shares, being the same number of shares on issue by SKY (premerger). MergeCo was then renamed Sky Network Television Limited and listed on the New Zealand and Australian stock exchanges.

Throughout these notes to the financial statements the previous Sky Network Television Limited is referred to as SKY (premerger), being the company of that name in existence throughout the year to 30 June 2005. Merger Company 2005 Limited which changed its name to Sky Network Television Limited on 1 July 2005 is referred to as SKY or the Company.

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.

On 8 February 2006 SKY acquired the assets of Prime Television New Zealand Limited (Prime) for a net cost of \$29.5 million. Assets acquired included land and buildings, plant and equipment, programme rights and spectrum licences. The difference between the fair value of the assets acquired and the acquisition price has been allocated to goodwill (refer note 26).

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

These financial statements were authorised for issue by the Board on 16 August 2007.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

These financial statements are for the year ended 30 June 2007. They have been prepared in accordance 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 2007) as applicable to SKY as a profit-oriented entity. SKY in complying with NZ IFRS is simultaneously in compliance with International Financial Reporting Standards (IFRS).

The preparation of financial statements in accordance with NZ IFRS requires management to make judgements, 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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

NZ IFRS 7: Financial Instruments Disclosures (Effective date periods beginning on or after 1 January 2007). This standard requires extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks with respect to the Group's financial instruments and share capital.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

CONTINUED

NZ IFRS 8: Operating Segments (Effective date periods beginning on or after 1 January 2009). This specifies a new way of determining segments with a focus on information provided to the chief operating decision makers.

NZ IFRIC 9: Reassessment of Embedded Derivatives (Effective date periods beginning on or after 1 January 2007).

NZ IFRIC 11: IFRS 2 – Group and Treasury Share transactions (Effective date periods beginning on or after 1 March 2007).

NZ IFRIC 12: Service Concession Arrangements (Effective date periods beginning on or after 1 January 2008).

IFRIC 13: Customer Loyalty Programmes (Effective date periods beginning on or after 1 July 2008).

IFRIC 14: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interpretation (Effective date periods beginning on or after 1 January 2008).

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.

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 purchase method.

The purchase method of accounting is used to account for the acquisition of subsidiaries and businesses by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date irrespective of the extent of any minority interest. The excess of cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Any increase in ownership percentage after control is obtained is accounted for as a step acquisition whereby the difference between the acquisition price and the acquirer's share of the net assets acquired (including previously assessed fair value adjustments) is recorded as goodwill.

SUBSIDIARIES

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

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

ASSOCIATES AND JOINT VENTURES (EQUITY ACCOUNTED INVESTEEES)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Associates and joint ventures are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees after adjustments to align the accounting policies with those of the Group, from the date that joint control commences until the date that significant influence or joint control ceases.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

CONTINUED

FOREIGN CURRENCIES

Functional presentation currency

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

DEPRECIATION

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

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

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

GOODWILL

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the subsidiary sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The SKY business is considered to comprise only a single cash-generating unit. UHF and DBS (satellite) are both distribution platforms and as such do not comprise separate cash-generating units.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

CONTINUED

OTHER INTANGIBLE ASSETS

Broadcasting rights

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

Renewal rights

Renewal rights for programmes are capitalised and amortised 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 over their estimated useful lives (three to five years).

PROGRAMME RIGHTS

Programme rights are recognised 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, 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 INSTRUMENTS

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

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. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is expensed in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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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. Other borrowing costs are expensed when incurred.

Bonds

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

Trade and other payables

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

Derivative financial instruments and hedge accounting

(a) Managing financial risk

The Group's activities expose it primarily to the financial risks of changes in credit risk, foreign exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain 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 the use of financial derivatives consistent with the Group's risk management strategy.

(i) Credit risk

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. 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 financial institution.

(ii) 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 future commercial transactions, recognised as assets and liabilities 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 movements in exchange rates on foreign currency denominated liabilities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

CONTINUED

The Group's risk management policy is to hedge (a) 70% to 100% of fixed commitments for a period of up to 60 months – principally fixed payment sports contracts and Optus lease payments and (b) a minimum of 85% of anticipated transactions (foreign currency purchases) on a rolling 12 month basis, 35% to 45% on a rolling 13 to 24 month basis and 25% to 35% on a rolling 25 to 36 month basis. Approximately 90% of anticipated transactions in each major currency qualify as 'highly probable' forecast transactions for hedge accounting purposes.

(iii) Cash flow and fair value interest rate risk

The Group's cash flow 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, 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.

(iv) Liquidity risk

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.

(v) Price risk

The Group does not have any price risk exposure.

(b) Accounting for derivative financial instruments and hedging activities

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

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

Cash flow hedges

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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

CONTINUED

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.

FAIR VALUE ESTIMATION

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.

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 2007 and 30 June 2006 the Group has not granted any share options to employees.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

CONTINUED

PROVISIONS

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

REVENUE RECOGNITION

a) Sales of goods and services

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

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

b) Interest income

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

TAXATION

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

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

CONTINUED

SEGMENTAL REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. 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 either on a business or geographic basis.

CHANGES IN ACCOUNTING POLICIES

Accounting policies have been applied on a consistent basis throughout the periods presented.

3 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 significant 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 a suitable discount rate in order to calculate present value. The value of goodwill at the balance date was \$1,422 million (30 June 2006 \$1,422 million). No impairment loss has been recognised. Details of the value-in-use calculation are provided in note 16.

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).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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4 COMPARATIVES

Certain prior year figures have been reclassified to subscriber management expenses in order to more accurately reflect these costs in a manner which is consistent with the current year. Prior period amounts reclassified are as follows:

IN NZD 000	GROUP PREVIOUS BALANCE	GROUP RECLASSIFICATION	GROUP ADJUSTED BALANCE	COMPANY PREVIOUS BALANCE	COMPANY RECLASSIFICATION	COMPANY ADJUSTED BALANCE
INCOME STATEMENT						
Subscriber management	35,525	2,476	38,001	35,525	2,216	37,741
Sales and marketing	32,830	(143)	32,687	32,830	(143)	32,687
Broadcasting and infrastructure	24,269	(238)	24,031	24,140	(238)	23,902
Corporate	16,890	(2,095)	14,795	16,629	(1,835)	14,794

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 30 JUN 2007	GROUP 30 JUN 2006	COMPANY 30 JUN 2007	COMPANY 30 JUN 2006
DEPRECIATION AND AMORTISATION				
Depreciation of property, plant and equipment (note 12)	77,756	100,557	77,666	100,448
Amortisation of intangibles (note 13)	7,232	5,520	7,232	5,517
TOTAL DEPRECIATION AND AMORTISATION	84,988	106,077	84,898	105,965
BAD AND DOUBTFUL DEBTS				
Movement in provision	333	153	333	152
Net write-off	1,499	1,295	1,499	1,295
TOTAL BAD AND DOUBTFUL DEBTS	1,832	1,448	1,832	1,447
FEES PAID TO AUDITORS				
Audit fees paid to principal auditors	145	134	138	128
Advisory services by principal auditors	7	23	7	23
NZ IFRS conversion audit work	–	88	–	88
TOTAL FEES TO AUDITORS ⁽¹⁾	152	245	145	239
DONATIONS	45	83	45	83
EMPLOYEE COSTS	50,485	42,006	50,272	41,809
DIRECTORS' FEES	415	424	415	424
IMPAIRMENT OF INVESTMENT IN EQUITY ACCOUNTED INVESTEE	–	–	202	–
OPERATING LEASE AND RENTAL EXPENSES	20,508	1,647	20,508	1,647

(1) In addition to the audit fees noted above, fees paid to the company's auditors for due diligence services amounted to \$66,000 in the current year (2006: \$nil) and have been capitalised as part of the bond issue transaction costs (see Note 19).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

CONTINUED

7 FINANCIAL INCOME/(EXPENSE)

IN NZD 000	GROUP 30 JUN 2007	GROUP 30 JUN 2006	COMPANY 30 JUN 2007	COMPANY 30 JUN 2006
Interest income	2,336	3,067	2,336	3,067
Interest income related parties (note 30)	–	–	38,480	1,769
Interest expense	(31,631)	(38,990)	(31,631)	(38,989)
Interest expense related parties (note 30)	–	–	(56,095)	(2,226)
Interest expense on bond/capital notes	(14,683)	(9,918)	(14,683)	(9,918)
Amortisation of bond/capital notes issue costs	(484)	(934)	(484)	(934)
Bank facility fees	(446)	(764)	(445)	(764)
Interest expense on financial leases	(862)	(2,429)	(862)	(2,429)
Realised exchange loss	(173)	(216)	(173)	(216)
Unrealised exchange gain/(loss)	144	(1,003)	144	(1,003)
Interest rate swaps – fair value	(607)	(431)	(607)	(431)
Gain on transfer of subsidiary (note 30)	–	–	–	951,442
	(46,406)	(51,618)	(64,020)	899,368

8 INCOME TAXES

IN NZD 000	GROUP 30 JUN 2007	GROUP 30 JUN 2006	COMPANY 30 JUN 2007	COMPANY 30 JUN 2006
The total charge for the year can be reconciled to the accounting profit as follows:				
PROFIT BEFORE TAX	117,768	90,043	100,122	1,041,012
Prima facie tax expense at 33% (2006: 33%)	38,863	29,714	33,040	343,534
Non assessable income	–	–	–	(313,976)
Non deductible expenses	219	155	217	155
Prior year adjustment	9	9	9	–
Effect of change in tax rate	821	–	821	–
Other	1	14	–	13
INCOME TAX EXPENSE	39,913	29,892	34,087	29,726
ALLOCATED BETWEEN				
Current tax payable	33,652	29,414	27,828	29,248
Deferred tax (note 17)	6,261	478	6,259	478
INCOME TAX EXPENSE	39,913	29,892	34,087	29,726
IMPUTATION CREDIT ACCOUNT				
Balance at beginning of the year	33,807	6,499	33,593	–
Acquired through merger	–	–	–	6,309
Tax payments	26,924	33,553	26,907	33,528
Tax refunds	–	(193)	–	(192)
Use of money interest	77	(93)	77	(93)
Credits attached to dividends paid	(13,451)	(5,959)	(13,451)	(5,959)
Balance at end of year	47,357	33,807	47,126	33,593

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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9 EARNINGS PER SHARE

	GROUP 30 JUN 2007	GROUP 30 JUN 2006
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.		
Profit after tax (NZD 000)	77,855	60,151
Weighted average number of ordinary shares on issue (thousands)	389,140	389,140
BASIC EARNINGS PER SHARE (CENTS)	20.01	15.46

	NUMBER OF SHARES	
	30 JUN 2007	30 JUN 2006
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES		
Issued ordinary shares at beginning of year	389,139,785	–
Issued ordinary shares at end of year (note 22)	389,139,785	389,139,785
Weighted average number of ordinary shares	389,139,785	389,139,785

DILUTED EARNINGS PER SHARE

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

10 TRADE AND OTHER RECEIVABLES

IN NZD 000	GROUP 30 JUN 2007	GROUP 30 JUN 2006	COMPANY 30 JUN 2007	COMPANY 30 JUN 2006
Trade receivables	47,591	44,762	47,537	44,700
Less provision for impairment of receivables	(1,008)	(675)	(1,007)	(674)
Trade receivables – net	46,583	44,087	46,530	44,026
Receivable from group subsidiaries (note 30)	–	–	197	1,931
Other receivables	3,347	1,852	3,330	1,852
Prepaid expenses	2,362	2,088	2,361	2,088
BALANCE AT END OF YEAR	52,292	48,027	52,418	49,897

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.

11 PROGRAMME RIGHTS

IN NZD 000	GROUP 30 JUN 2007	GROUP 30 JUN 2006	COMPANY 30 JUN 2007	COMPANY 30 JUN 2006
Cost	62,625	73,739	62,625	73,739
Less amortisation	(39,207)	(49,935)	(39,207)	(49,935)
BALANCE AT END OF YEAR	23,418	23,804	23,418	23,804

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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12 PROPERTY, PLANT AND EQUIPMENT

IN NZD 000	LAND, BUILDINGS & LEASEHOLD IMPROVEMENTS	BROAD- CASTING & STUDIO EQUIPMENT	SATELLITE TRANS- PONDERS (SUBJECT TO FINANCE LEASE)	DECODERS & ASSOCIATED EQUIPMENT	CAPITALISED INSTALLATION COSTS	OTHER PLANT & EQUIPMENT	TOTAL
GROUP							
COST							
Balance 1 July 2006	24,275	84,175	130,919	351,167	369,774	21,106	981,416
Additions	5,435	7,314	–	23,995	37,840	3,761	78,345
Change in lease term	–	–	(850)	–	–	–	(850)
Disposals	–	(168)	(130,069)	(3,773)	(3,903)	(76)	(137,989)
Balance at 30 June 2007	29,710	91,321	–	371,389	403,711	24,791	920,922
ACCUMULATED DEPRECIATION							
Balance 1 July 2006	3,915	51,704	124,963	285,680	287,290	15,486	769,038
Depreciation for the year	877	8,113	5,116	26,796	33,868	2,986	77,756
Disposals	–	(163)	(130,079)	(3,773)	(3,903)	(71)	(137,989)
Balance at 30 June 2007	4,792	59,654	–	308,703	317,255	18,401	708,805
NET BOOK VALUE 30 JUNE 2007	24,918	31,667	–	62,686	86,456	6,390	212,117
COST							
Balance 1 July 2005	19,070	73,692	138,028	332,678	337,146	16,988	917,602
Acquisition of Prime	3,812	6,357	–	–	–	1,011	11,180
Change in lease term	–	–	(7,109)	–	–	–	(7,109)
Additions	1,856	14,864	–	25,924	36,336	4,932	83,912
Disposals	(463)	(10,738)	–	(7,435)	(3,708)	(1,825)	(24,169)
Balance at 30 June 2006	24,275	84,175	130,919	351,167	369,774	21,106	981,416
ACCUMULATED DEPRECIATION							
Balance 1 July 2005	3,608	54,397	104,334	263,681	254,944	11,632	692,596
Depreciation for the year	725	8,038	20,629	29,434	36,054	5,677	100,557
Disposals	(418)	(10,731)	–	(7,435)	(3,708)	(1,823)	(24,115)
Balance at 30 June 2006	3,915	51,704	124,963	285,680	287,290	15,486	769,038
NET BOOK VALUE 30 JUNE 2006	20,360	32,471	5,956	65,487	82,484	5,620	212,378

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

IN NZD 000	LAND, BUILDINGS & LEASEHOLD IMPROVEMENTS	BROAD- CASTING & STUDIO EQUIPMENT	SATELLITE TRANS- PONDERS (SUBJECT TO FINANCE LEASE)	DECODERS & ASSOCIATED EQUIPMENT	CAPITALISED INSTALLATION COSTS	OTHER PLANT & EQUIPMENT	TOTAL
COMPANY							
COST							
Balance 1 July 2006	24,275	84,155	130,919	351,167	369,774	20,359	980,649
Additions	5,435	7,314	–	23,995	37,840	3,665	78,249
Disposals	–	(168)	(130,919)	(3,773)	(3,903)	(76)	(138,839)
Balance at 30 June 2007	29,710	91,301	–	371,389	403,711	23,948	920,059
ACCUMULATED DEPRECIATION							
Balance 1 July 2006	3,915	51,693	124,963	285,680	287,290	14,908	768,449
Depreciation for the year	877	8,111	5,116	26,796	33,868	2,898	77,666
Disposals	–	(163)	(130,079)	(3,773)	(3,903)	(71)	(137,989)
Balance at 30 June 2007	4,792	59,641	–	308,703	317,255	17,735	708,126
NET BOOK VALUE 30 JUNE 2007	24,918	31,660	–	62,686	86,456	6,213	211,933
COST							
Acquired by merger transaction 1 July 2005	19,070	73,672	138,028	332,678	337,146	16,285	916,879
Acquisition of Prime	3,812	6,357	–	–	–	1,011	11,180
Change in lease term	–	–	(7,109)	–	–	–	(7,109)
Additions	1,856	14,864	–	25,924	36,336	4,885	83,865
Disposals	(463)	(10,738)	–	(7,435)	(3,708)	(1,822)	(24,166)
Balance at 30 June 2006	24,275	84,155	130,919	351,167	369,774	20,359	980,649
ACCUMULATED DEPRECIATION							
Acquired by merger transaction 1 July 2005	3,608	54,388	104,334	263,681	254,944	11,162	692,117
Depreciation for the year	725	8,037	20,629	29,434	36,054	5,569	100,448
Disposals	(418)	(10,732)	–	(7,435)	(3,708)	(1,823)	(24,116)
Balance at 30 June 2006	3,915	51,693	124,963	285,680	287,290	14,908	768,449
NET BOOK VALUE 30 JUNE 2006	20,360	32,462	5,956	65,487	82,484	5,451	212,200

Land, buildings and leasehold improvements at 30 June 2007 and 30 June 2006 includes land with a cost of \$2,626,000.

The latest independent valuation of land and buildings for 10 Panorama Road prepared by Darroch Valuations Limited, registered independent valuers, in July 2005 records a value of \$13 million. The book value of those land and buildings including additions to date of \$4.7 million and excluding leasehold improvements, is \$13.9 million. The latest independent valuation for 1 John Glenn Avenue prepared by Darroch Valuations Limited in September 2005 records a value of \$3.8 million which reflects its book value. The directors consider the valuations to be a reasonable basis for the assessment of fair value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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13 OTHER INTANGIBLE ASSETS

IN NZD 000	SOFTWARE	BROADCAST- ING RIGHTS	RENEWAL RIGHTS	OTHER INTANGIBLES	TOTAL
GROUP					
COST					
Balance 1 July 2006	17,249	2,309	37,088	1,546	58,192
Additions	2,979	–	–	92	3,071
Balance at 30 June 2007	20,228	2,309	37,088	1,638	61,263
ACCUMULATED AMORTISATION					
Balance 1 July 2006	12,719	1,852	13,497	640	28,708
Amortisation for the year	1,976	119	4,909	228	7,232
Balance at 30 June 2007	14,695	1,971	18,406	868	35,940
NET BOOK VALUE 30 JUNE 2007	5,533	338	18,682	770	25,323
COST					
Balance 1 July 2005	14,608	2,309	37,088	811	54,816
Acquisition of Prime	–	–	–	474	474
Additions	2,681	–	–	261	2,942
Disposals	(40)	–	–	–	(40)
Balance at 30 June 2006	17,249	2,309	37,088	1,546	58,192
ACCUMULATED AMORTISATION					
Balance 1 July 2005	11,078	1,733	9,848	531	23,190
Amortisation for the year	1,643	119	3,649	109	5,520
Disposals	(2)	–	–	–	(2)
Balance at 30 June 2006	12,719	1,852	13,497	640	28,708
NET BOOK VALUE 30 JUNE 2006	4,530	457	23,591	906	29,484

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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13 OTHER INTANGIBLE ASSETS (CONTINUED)

IN NZD 000	SOFTWARE	BROADCAST- ING RIGHTS	RENEWAL RIGHTS	OTHER INTANGIBLES	TOTAL
COMPANY					
COST					
Balance 1 July 2006	17,249	2,309	37,088	1,202	57,848
Additions	2,979	–	–	92	3,071
Balance at 30 June 2007	20,228	2,309	37,088	1,294	60,919
ACCUMULATED AMORTISATION					
Balance 1 July 2006	12,717	1,852	13,497	298	28,364
Amortisation for the year	1,976	119	4,909	228	7,232
Balance at 30 June 2007	14,693	1,971	18,406	526	35,596
NET BOOK VALUE 30 JUNE 2007	5,535	338	18,682	768	25,323
COST					
Acquired by merger 1 July 2005	14,608	2,309	37,088	467	54,472
Acquisition of Prime	–	–	–	474	474
Additions	2,679	–	–	261	2,940
Disposals	(38)	–	–	–	(38)
Balance at 30 June 2006	17,249	2,309	37,088	1,202	57,848
ACCUMULATED AMORTISATION					
Acquired by merger 1 July 2005	11,078	1,733	9,848	188	22,847
Amortisation for the year	1,639	119	3,649	110	5,517
Balance at 30 June 2006	12,717	1,852	13,497	298	28,364
NET BOOK VALUE 30 JUNE 2006	4,532	457	23,591	904	29,484

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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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	
			2007	2006
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%
Sky Telecommunications (MR7) Limited	Non-trading	SKY	100.00%	100.00%
The following companies were merged into SKY during the year:				
INL Publishing	Non-trading	INL Holdings	Merged	100.00%
INL Holdings Limited	Non-trading	SKY	Merged	100.00%
Independent Publishers Limited	Non-trading	SKY	Merged	100.00%
The following companies were liquidated during the year and deregistered on 28 February 2007:				
INL Investments (Australia) Limited	Liquidated			100.00%
INL Newspapers Limited	Liquidated			100.00%
INL Bendigo Pty Limited	Liquidated			100.00%
The Independent Property Company Pty Limited	Liquidated			100.00%
INL Wimmera Pty Limited	Liquidated			100.00%
INL Horshamprint Pty Limited	Liquidated			100.00%
The following companies were liquidated during the prior year:				
Mercer Investments Limited	Liquidated			
Alpha Mining Limited	Liquidated			
Alpha Petroleum Limited	Liquidated			
Evening Post Superannuation Nominees Limited	Liquidated			
News Media Ownership Limited	Liquidated			
Taupo Times Limited	Liquidated			
Yellowfin Limited	Liquidated			
Zaroma Investments Limited	Liquidated			

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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14 SHARES IN SUBSIDIARY COMPANIES (CONTINUED)

IN NZD 000	COMPANY 30 JUN 2007	COMPANY 30 JUN 2006
COST OF INVESTMENTS		
Sky DMX Music Limited	5	5
Independent Publishers Limited	-	241,705
	5	241,710

Sky Network Television Limited and Independent Newspapers Limited amalgamated on 1 July 2005 with Merger Company 2005 Limited to form a single operating company. The amalgamated company was renamed Sky Network Television Limited. On 23 June 2006 SKY and Independent Publishers Limited sold their respective shareholdings in INL Publishing Limited to a newly formed company, INL Holdings Limited. INL Publishing Limited changed its status to an unlimited liability company.

On 21 December 2006 INL Holdings Limited was amalgamated into SKY and on 22 December 2006 INL Publishing was amalgamated into SKY. Following the liquidation and deregistration of the Australian subsidiaries on 28th February 2007, Independent Publishers Limited was amalgamated into SKY on 1 May 2007.

SUMMARY OF THE EFFECT OF THE AMALGAMATIONS

IN NZD 000	COMPANY 30 JUN 2007
Assets & Liabilities amalgamated	
Intercompany receivables	1,327,708
Intercompany payables	(1,049,242)
Tax payable	(5,965)
	272,501
Carrying amount of shares in amalgamated subsidiaries	(241,705)
Balance recognised in the Statement of Changes in Equity (note 24)	30,796

15 EQUITY ACCOUNTED INVESTEE

The Group has a 50% interest in an unincorporated joint venture Sky Sport Magazine which publishes a sports magazine for general distribution. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost less provision for impairment by the Company.

MOVEMENTS IN CARRYING VALUE OF EQUITY ACCOUNTED INVESTEE:

IN NZD 000	GROUP 30 JUN 2007
Contribution to joint venture costs	309
Share of loss	(202)
BALANCE AT END OF YEAR	107

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

IN NZD 000	COMPANY 30 JUN 2007
Investment in joint venture	309
Provision for impairment	(202)
BALANCE AT END OF YEAR	107

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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16 GOODWILL

IN NZD 000	GROUP AND COMPANY 30 JUN 2007	GROUP AND COMPANY 30 JUN 2006
BALANCE AT BEGINNING OF YEAR	1,422,115	829,990
Goodwill arising from merger transaction on 1 July 2005 (note 26)	–	575,179
Goodwill arising from acquisition of Prime (note 26)	–	16,946
BALANCE AT END OF YEAR	1,422,115	1,422,115

The Group tests goodwill annually for impairment, or more frequently, if there are indications that goodwill might be impaired. The key assumptions for the value-in-use calculation are those regarding the discount rates, subscription rates and expected churn percentages and any expected changes to subscriptions or direct costs during the period. Management estimates discount rates using post-tax 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 Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next ten years and incorporates a present value calculation. The rate used to discount forecast cash flows is 9.7%. Growth rate is based on an annual net gain in subscribers of 36,000.

17 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	HEDGES THROUGH INCOME STATEMENT	OTHER	HEDGES THROUGH EQUITY	TOTAL
GROUP					
At 1 July 2006	15,359	(2,349)	1,783	(8,783)	6,010
NZ IAS 39 hedging adjustment credited direct to equity	–	–	–	12,819	12,819
Credited/(charged) to income statement (Note 8)	(3,282)	1,720	(4,699)	–	(6,261)
BALANCE AT 30 JUNE 2007	12,077	(629)	(2,916)	4,036	12,568
At 1 July 2005	17,777	(3,240)	582	–	15,119
NZ IAS 39 hedging adjustment credited direct to equity	–	–	152	(8,783)	(8,631)
Credited/(charged) to income statement (Note 8)	(2,418)	891	1,049	–	(478)
BALANCE AT 30 JUNE 2006	15,359	(2,349)	1,783	(8,783)	6,010
COMPANY					
At 1 July 2006	15,357	(2,349)	1,783	(8,783)	6,008
NZ IAS 39 hedging adjustment credited direct to equity	–	–	–	12,819	12,819
Credited/(charged) to income statement (Note 8)	(3,280)	1,720	(4,699)	–	(6,259)
BALANCE AT 30 JUNE 2007	12,077	(629)	(2,916)	4,036	12,568
Acquired by merger 1 July 2005	17,775	(3,240)	582	–	15,117
NZ IAS 39 hedging adjustment credited direct to equity	–	–	152	(8,783)	(8,631)
Credited/(charged) to income statement (Note 8)	(2,418)	891	1,049	–	(478)
BALANCE AT 30 JUNE 2006	15,357	(2,349)	1,783	(8,783)	6,008

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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18 TRADE AND OTHER PAYABLES

IN NZD 000	GROUP 30 JUN 2007	GROUP 30 JUN 2006	COMPANY 30 JUN 2007	COMPANY 30 JUN 2006
Trade payables	35,129	42,280	35,096	42,243
Due to related parties	2,655	3,971	2,670	6,200
Unearned subscriptions	35,032	34,379	34,967	34,316
Employee entitlements	7,695	7,255	7,695	7,255
Deferred revenue	180	267	180	267
Accruals	21,805	18,450	21,637	18,299
BALANCE AT END OF YEAR	102,496	106,602	102,245	108,580

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

19 BORROWINGS

IN NZD 000	GROUP AND COMPANY 30 JUN 2007	GROUP AND COMPANY 30 JUN 2006
LEASE LIABILITIES (PRESENT VALUE)		
Current	–	6,055
BANK LOANS		
Non-current	334,195	498,927
BONDS AND CAPITAL NOTES		
Current	–	105,035
Non-current	197,220	–
\$200,000,000 bonds at \$1.00 at amortised cost including transaction costs (30 June 2006: 105,309,000 capital notes)	197,220	105,035
REPAYMENT TERMS		
FINANCE LEASE LIABILITIES – MINIMUM LEASE PAYMENTS		
Within one year	–	6,117
Future finance charges on finance leases	–	(62)
Present value of finance lease liabilities	–	6,055
BANK LOANS		
Five years	334,195	498,927

LEASE LIABILITIES

Interest rates on the Australian dollar denominated transponder finance leases varied in the range of 6.1% to 7% (30 June 2006 – 6.1% to 7%). The lease liabilities were secured by the leased assets.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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19 BORROWINGS (CONTINUED)

BANK LOANS

In June 2005 Merger Company 2005 Limited arranged a NZD 610 million negative pledge five year revolving credit bank facility and an AUD 40 million letter of credit facility from a syndicate of banks comprising ANZ National Bank Limited, Bank of New Zealand, Commonwealth Bank of Australia and The Toronto-Dominion Bank. The facility was reduced to \$385 million and drawn to \$335 million at 30 June 2007. Interest is charged on drawing under the facility at a rate between 0.375% and 0.60% per annum above the average bid rate for the purchase of bank accepted bills of exchange. There is also a commitment fee payable on the undrawn balance of the facility of between 0.175% and 0.30% per annum. There are no required repayment tranches of the facility. The facility can be partially or fully cancelled at SKY's discretion. In June 2007 the bank facility termination date was extended by one year to 1 July 2012.

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

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

FAIR VALUES

The carrying amount of borrowings, with the exception, in the prior year, of capital notes, reflects fair value as the borrowing finance rates approximate market rates.

BONDS AND CAPITAL NOTES

On 16 October 2006, the Group issued bonds for a value of \$200 million which were fully subscribed. The funds were utilised for repayment of the capital notes maturing on 15 October 2006 and repayment of bank debt.

Terms and conditions of outstanding bonds (prior period – capital notes) are as follows:

	GROUP 30 JUN 2007 BONDS	GROUP 30 JUN 2006 CAPITAL NOTES	COMPANY 30 JUN 2007 BONDS	COMPANY 30 JUN 2006 CAPITAL NOTES
Nominal interest rate	8.34%	9.3%	8.34%	9.3%
Date of maturity	16-Oct-16	15-Oct-06	16-Oct-16	15-Oct-06
IN NZD 000				
Carrying amount	197,220	105,035	197,220	105,035
Face value	200,000	105,309	200,000	105,309

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 2007 was 8.5% (capital notes – 30 June 2006: 8.7%). The fair value of the bonds at 30 June 2007 was \$198.0 million (capital notes – 30 June 2006 \$107.5 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.

On 15 July 2005, 5,767,000 capital notes were repaid as part of the merger transaction between INL and SKY (premerger) at a price of \$1.0177 per capital note. The remaining 105,309,000 capital notes continued to be listed on the New Zealand Debt Exchange until maturity on 15 October 2006 when they were repaid.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

CONTINUED

20 DERIVATIVE FINANCIAL INSTRUMENTS

IN NZD 000	GROUP AND COMPANY 30 JUN 2007			GROUP AND COMPANY 30 JUN 2006		
	ASSETS	LIABILITIES	NOTIONAL AMOUNTS	ASSETS	LIABILITIES	NOTIONAL AMOUNTS
Interest rate hedges – cash flow	13,499	–	290,000	918	–	290,000
Interest rate hedges – fair value	–	[648]	200,000	–	[298]	55,000
Forward foreign exchange contracts – cash flow hedges	394	[25,499]	393,793	26,224	[520]	363,206
Forward foreign exchange contracts – fair value	18	[3,635]	26,177	2,820	[790]	47,366
	13,911	[29,782]	909,970	29,962	[1,608]	755,572
Analysed as:						
Current	364	[14,488]	363,546	8,973	[1,439]	215,243
Non-current	13,547	[15,294]	546,424	20,989	[169]	540,329
	13,911	[29,782]	909,970	29,962	[1,608]	755,572

Derivative financial instruments relating to foreign exchange risks are denominated in the following currencies:

IN NZD 000	GROUP AND COMPANY 30 JUN 2007	GROUP AND COMPANY 30 JUN 2006
CURRENCIES PURCHASED FORWARD		
USD	224,564	160,487
AUD	193,914	248,251
GBP/JPY	1,492	1,835
	419,970	410,573
Derivative financial instruments relating to foreign exchange cash flow hedges have the following maturities:		
Within one year	137,369	112,876
One to two years	82,444	112,269
More than two years	173,980	138,061
	393,793	363,206

Gains and losses in equity on forward foreign exchange contracts are released to the balance sheet account relating to the hedged asset or liability as a basis price adjustment at the same time that the hedged asset or liability is recognised on the balance sheet. The basis price adjustment is subsequently amortised over the same period as the hedged item.

NOTES TO THE FINANCIAL STATEMENTS

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20 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

INTEREST RATES

At 30 June 2007, interest rates on borrowings varied in the range of 6.5% to 8.7% (30 June 2006 – 7.5% to 8.1%).

The Group's interest rate structure is as follows:

IN NZD 000	GROUP 30 JUN 2007			GROUP 30 JUN 2006		
	EFFECTIVE INTEREST RATE	CURRENT	NON- CURRENT	EFFECTIVE INTEREST RATE	CURRENT	NON- CURRENT
ASSETS						
Cash and cash equivalents	7.87%	16,602	–	7.07%	42,394	–
LIABILITIES						
Bank loans	7.57%	–	(334,195)	7.79%	–	(498,927)
Bonds	8.74%	–	(197,220)	–	–	–
Capital notes	–	–	–	9.91%	(105,035)	–
Finance lease	–	–	–	6.16%	(6,055)	–
OFF-BALANCE SHEET						
Swaptions		–	–		–	100,000
Collars		–	110,000		–	10,000
Floating to fixed interest rate swaps		–	180,000		–	180,000
Fixed to floating interest rate swaps		200,000	–		55,000	–
		216,602	(241,415)		(13,696)	(208,927)

The Company's interest rate structure and balances are the same as the Group except for cash and cash equivalents balances which are \$16,498,000 (30 June 2006: \$42,329,000).

At 30 June 2006 the Company had intercompany loans from subsidiary companies for an amount of \$1,008,993,000 with an effective interest rate of 8%. There were no intercompany loans outstanding at 30 June 2007.

EXCHANGE RATES

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

	30 JUN 2007	30 JUN 2006
USD	0.7724	0.6089
AUD	0.9086	0.8215
GBP	0.3849	0.3322
JPY	95.1800	70.0000
MATERIAL FOREIGN CURRENCY MONETARY ASSETS AND LIABILITIES		
Monetary liabilities denominated in foreign currencies recognised in the balance sheet are:		
IN NZD 000		
USD	15,823	20,926
AUD	4,643	8,114
GBP	313	359

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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21 PROVISIONS

IN NZD 000	GROUP AND COMPANY 30 JUN 2007	GROUP AND COMPANY 30 JUN 2006
PROGRAMME RIGHTS		
Opening balance	1,835	–
Acquired by acquisition of Prime	–	2,173
Used during the year	(658)	(338)
BALANCE AT END OF YEAR	1,177	1,835
ANALYSIS OF TOTAL PROVISIONS		
Current	449	866
Non-current	728	969
	1,177	1,835

As part of the purchase of Prime, provision has been made for programme rights which are considered to be onerous. Some of these rights extend for periods of up to five years.

22 SHARE CAPITAL

	GROUP AND COMPANY NUMBER OF SHARES (000)	GROUP AND COMPANY ORDINARY SHARES (NZD 000)
Shares on issue at 1 July 2005	364,699	222,055
Cancellation of shares as result of merger transaction on 1 July 2005	(364,699)	(119,384)
Exchange INL shares for SKY shares	304,897	102,671
Termination of executive share options	–	(9,038)
Issue of shares to SKY (premerger) shareholders	84,243	484,395
Issue costs charged against share capital	–	(625)
Shares on issue at 30 June 2006 and 30 June 2007	389,140	577,403

As at 30 June 2007 and 2006 there were 389,139,785 ordinary shares authorised, issued and fully paid. Ordinary shares rank equally, carry voting rights and participate in distributions.

The Company issued 389,139,785 shares on 1 July 2005 in accordance with the scheme of arrangement (refer note 26). INL shareholders received 0.836 shares in the Company for each INL share held and SKY (premerger) shareholders excluding INL received one share in the Company for each SKY (premerger) share held. In addition shareholders received cash payments as compensation for their shares in INL and SKY (premerger) respectively. The total shares issued on 1 July 2005 equals the number of shares on issue in SKY (premerger) prior to the arrangement.

The payment made to INL shareholders of \$649.164 million has been treated as a return of capital and allocated between retained earnings and share capital on the basis of premerger equity.

SHARE OPTIONS

Between December 1997 and November 2001 SKY (premerger) had also granted a total of 5,930,000 call options for purchase by certain directors and executives of which 3,700,000 had been exercised by 30 June 2005, leaving 2,230,000 outstanding. These options were cancelled for consideration totalling \$9,038,614 on 1 July 2005 as part of the SKY (premerger) and INL merger arrangements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

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23 HEDGING RESERVE

IN NZD 000	GROUP AND COMPANY 30 JUN 2007	GROUP AND COMPANY 30 JUN 2006
Adoption of NZ IAS 32 and NZ IAS 39 – cash flow hedges at 1 July 2005	–	(10,759)
Deferred tax on balance	–	3,550
BALANCE AT 1 JULY	17,832	(7,209)
CASH FLOW HEDGES		
Unrealised (losses)/gains during the year	(30,810)	32,537
Transfer to basis price adjustment	(8,298)	4,837
Deferred tax	12,819	(12,333)
	(26,289)	25,041
BALANCE AT END OF YEAR	(8,457)	17,832

24 RETAINED EARNINGS

IN NZD 000	GROUP 30 JUN 2007	GROUP 30 JUN 2006	COMPANY 30 JUN 2007	COMPANY 30 JUN 2006
Opening balance	503,534	985,454	484,638	–
Retained earnings arising from merger transaction	–	–	–	(511,082)
Adoption of NZ IAS 39 – fair value adjustment	–	(309)	–	–
Minority share of adjustments on 1 July 2005 (note 25)	–	1,627	–	–
ADJUSTED OPENING BALANCE	503,534	986,772	484,638	(511,082)
Termination of executive share options	–	1,957	–	–
Exchange INL shares for SKY (premerger) shares	–	(529,780)	–	–
Merger reserve (note 14)	–	–	30,796	–
Add net profit for the period	77,855	60,151	66,035	1,011,286
Less dividends paid	(35,024)	(15,566)	(35,024)	(15,566)
BALANCE AT END OF YEAR	546,365	503,534	546,445	484,638

25 MINORITY INTEREST

IN NZD 000	GROUP 30 JUN 2007	GROUP 30 JUN 2006
Opening balance	–	30,078
Minority share of NZ IFRS adjustments	–	(1,627)
ADJUSTED OPENING BALANCE	–	28,451
Add minority share of termination of share options	–	(1,957)
Less disposal of minority interest – merger transaction (note 26)	–	(26,494)
BALANCE AT END OF YEAR	–	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

CONTINUED

26 BUSINESS COMBINATIONS

MERGER TRANSACTION OF SKY (PREMERGER) AND INL ON 1 JULY 2005

The merger of INL with its 78.3% owned subsidiary company, SKY (premerger), was implemented on 1 July 2005. Under the scheme of arrangement, INL shareholders received 0.836 shares in a new company, Merger Company 2005 Limited ("MergeCo") and \$1.78 in cash in exchange for each INL share. SKY (premerger) shareholders, other than INL, received one share in MergeCo and \$1.28 in cash for each SKY (premerger) share held. This resulted in MergeCo issuing a total of 389,139,785 shares, being the same number of shares on issue by SKY (premerger) prior to the merger. INL and SKY (premerger) then amalgamated with MergeCo becoming the surviving company. MergeCo was then renamed Sky Network Television Limited and listed on the New Zealand and Australian stock exchanges.

The Inland Revenue has considered the correctness of the tax position adopted in relation to the exchange of shares by INL and SKY (premerger) shareholders for cash and shares in the company surviving amalgamation. In particular, the Commissioner considered whether any part of that transaction constituted a dividend or otherwise gave rise to a tax consequence for the relevant parties. Based on the information presently at hand, we have been advised that the Commissioner does not propose taking any further action in relation to this matter.

NZ IFRS 3 requires business combinations to be accounted for under the purchase method of accounting such that a fair value exercise is performed at the date that control is acquired. INL was deemed to be the acquirer of the remaining 21.7% of SKY (premerger) as INL already controlled SKY (premerger). The difference between the acquisition price and the Group's share of the carrying amount of the net assets acquired was recorded as goodwill.

The effect of the amalgamation transaction on the Group's balance sheet including NZ IFRS adjustments is as follows:

IN NZD 000

Assets and liabilities of SKY (premerger) at the date of amalgamation included:	
Property, plant and equipment and other non-current assets	282,761
Current assets	126,819
Current liabilities	(140,391)
Borrowings and capital notes	(122,297)
NET ASSETS OF SKY (PREMERGER) PER ANNUAL REPORT 30 JUNE 2005	146,892
Termination of executive share options (note 22)	(9,038)
Adjustment to net assets for adoption of NZ IFRS	(11,095)
Adjustment to net assets for adoption of NZ IAS 39 (note 23/24)	(7,518)
ADJUSTED NET ASSETS	119,241
Acquisition of minority interest in net assets of acquiree (note 25)	26,494
Acquired goodwill (note 16)	575,179
Total consideration paid	601,673
Settled by:	
Issue of equity instruments to SKY (premerger) minority shareholders	484,395
Payment of cash	107,831
Capitalisation of direct acquisition costs	9,447
	601,673

The fair value of the shares issued to the SKY (premerger) minority shareholders was based on 84,242,659 shares issued at the published share price on 1 July 2005 of \$5.75 per share.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

CONTINUED

26 BUSINESS COMBINATIONS (CONTINUED)

IN NZD 000

RECONCILIATION FOR CASH FLOW PURPOSES

Consideration paid	601,673
Less equity instruments issued	(484,395)
Less acquisition costs paid in prior year	(9,274)
Cash paid per cash flow statement	108,004

ACQUISITION OF PRIME

On 8 February 2006, the Group purchased the assets of Prime Television New Zealand Limited for a cash consideration of \$29.5 million. This transaction was accounted for using the purchase method of accounting. The acquired business contributed revenues of \$7.1 million and a net loss of \$4.9 million for the period from 8 February 2006 to 30 June 2006.

If the acquisition had occurred on 1 July 2005, the Group revenue would have been \$563.4 million and the profit would have been \$56.9 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 July 2005, together with the consequential tax effects.

The fair value of the assets acquired in the transaction and the goodwill arising are as follows:

IN NZD 000	FAIR VALUE	CARRYING AMOUNT AT ACQUISITION DATE
Land	1,600	779
Buildings	2,212	2,254
Plant and equipment	7,368	7,391
Intangible assets	474	-
Programme rights	6,970	7,610
Programme creditors	(3,405)	(3,405)
Provisions	(2,173)	-
Goodwill	16,946	-
	29,992	14,629
Settled by:		
Cash paid for Prime assets	29,538	
Capitalised acquisition costs	454	
Cash paid per cash flow statement	29,992	

27 EMPLOYEE BENEFITS

SHARE BASED PAYMENTS

The transitional provisions for NZ IFRS 2 allow an exemption from requirements to recognise share based payments in the financial statements for share option arrangements granted before 7 November 2002. All share options existing in SKY (premerger) were issued prior to the transitional date and accordingly no adjustment has been made under NZ IFRS for share based payments.

As part of the merger transaction with INL on 1 July 2005 (refer note 22) \$9,038,614 was paid to option holders to terminate the options held by four company executives and two directors.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

CONTINUED

28 COMMITMENTS

IN NZD 000	GROUP AND COMPANY 30 JUN 2007	GROUP AND COMPANY 30 JUN 2006
OPERATING LEASES:		
Year 1	25,123	1,223
Year 2	23,545	1,071
Year 3	21,872	950
Year 4	20,212	728
Year 5	17,925	612
Later than 5 years	109,097	1,763
	217,774	6,347
CONTRACTS FOR TRANSMISSION SERVICES:		
Year 1	12,177	13,006
Year 2	11,493	11,841
Year 3	7,985	10,984
Year 4	–	7,639
	31,655	43,470
CONTRACTS FOR FUTURE PROGRAMMES:		
Year 1	120,021	119,132
Year 2	97,122	81,171
Year 3	81,932	59,760
Year 4	55,544	45,606
Year 5	20,004	14,502
	374,623	320,171
CAPITAL EXPENDITURE COMMITMENTS		
Property, plant and equipment:		
Year 1	13,554	14,411
Intangibles:		
Year 3	4,422	–
Year 4	–	4,422
	17,976	18,833
OTHER SERVICES COMMITMENTS:		
Year 1	10,036	10,370
Year 2	9,648	10,135
Year 3	9,454	9,656
Year 4	8,754	9,396
Year 5	1,053	9,211
Later than 5 years	3,951	4,731
	42,896	53,499

The Group has entered into a contract with Optus Networks Pty Limited ("Optus") to lease five 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. These payments are hedged for a period of four years in accordance with the Group's current hedging policy. This contract is accounted for as an operating lease. Non-cancellable operating lease payments, including Optus lease payments, are included in operating leases above.

During the year ended 30 June 2007, \$18.8 million was recognised as an expense in the income statement in respect of the Optus operating lease. Using hedge exchange rates for the four year hedged portion and a balance date rate of 0.9086 for the remaining portion (30 June 2006: 0.8215), the present value of the commitment equates to \$210.9 million (30 June 2006: \$228.7 million). SKY has an option to purchase an additional two transponders on the D1 satellite should it require additional capacity in the future.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

CONTINUED

29 CONTINGENT LIABILITIES

The Group and Company have undrawn letters of credit at 30 June 2007 of \$46,654,000 (30 June 2006 – \$48,798,000), relating to future lease payments due to Optus and to Datacom Employer Services for executive payroll liabilities.

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.

30 RELATED PARTY TRANSACTIONS

IN NZD 000	GROUP 30 JUN 2007	GROUP 30 JUN 2006	COMPANY 30 JUN 2007	COMPANY 30 JUN 2006
The following transactions were carried out with related parties:				
TRANSACTIONS INCLUDED IN THE INCOME STATEMENT:				
The News Corporation Limited				
Programme, smartcard and broadcasting equipment and publishing	50,107	49,805	50,107	49,805
Interest received from subsidiary companies (note 7)	–	–	38,480	1,769
Interest paid to subsidiary companies (note 7)	–	–	(56,095)	(2,226)
Gain on transfer of subsidiary company (note 7)	–	–	–	951,442
TRANSACTIONS INCLUDED IN THE BALANCE SHEET:				
Payable to subsidiary companies (note 18)	–	–	–	2,229
Payable to related parties (note 18)	2,655	3,971	2,670	3,971
Receivable from related parties (note 10)	–	–	197	1,931
Loans to subsidiary companies	–	–	–	1,008,993
Loans from subsidiary companies	–	–	–	1,269,388

Related parties include Nationwide News Pty Limited, a principal shareholder which is an affiliate of The News Corporation Limited.

On 23 June 2006, SKY and Independent Publishers Limited transferred their holdings in INL Publishing Limited to INL Holdings Limited. INL Publishing Limited was transferred at its equity value of \$1,206,876,902 resulting in a gain on disposal recorded in SKY of \$951,441,567 and in Independent Publishers Limited of \$14,157,710. These gains are eliminated on consolidation. The interest rate on intercompany loans established at this date was 8%.

There were no loans to directors by the Company or associated parties at balance date (30 June 2006: nil).

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

IN NZD 000	GROUP AND COMPANY 30 JUN 2007	GROUP AND COMPANY 30 JUN 2006
Directors' fees	415	424
Remuneration key management personnel	7,591	6,471
	8,006	6,895

31 SUBSEQUENT EVENTS

There have been no subsequent events after balance date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007

CONTINUED

32 PROSPECTIVE FINANCIAL INFORMATION

The prospective summary information provided in the Information Memorandum published on 12 May 2005 relates to the 12 month period ended 11 May 2006. This information compares to the 12 month period to 30 June 2006 as follows:

IN NZD 000	12 MONTH PERIOD ENDED	
	30 JUN 2006	11 MAY 2006
Net cash inflows from operating activities	167,962	127,991
Net cash outflows from investing activities	(224,149)	(108,899)
Net cash outflows from financing activities	(206,475)	(41,978)
Net decrease in cash held	(262,662)	(22,886)
Opening cash brought forward	305,056	24,803
Closing cash carried forward	42,394	1,917
Explanations of the principal differences between the actual results and the prospective summary information are as follows:		
Opening cash brought forward		
Reconciliation of the opening cash brought forward position is as follows:		
Opening balance per Group consolidation 30 June 2005	305,056	
Less INL opening cash balance	(274,991)	
Less options paid out prior to amalgamation	(9,038)	
INL tax reimbursement (difference between projection and actual)	3,126	
Difference in forecasted free cash flow movements	650	
BALANCE PER INFORMATION MEMORANDUM	24,803	
Net cash inflows from operating activities		
Operating cash flow at 30 June 2006	167,962	
DIFFERENCES BETWEEN PROJECTIONS AND ACTUAL		
Interest paid	(7,270)	
Tax paid	(12,193)	
Working capital and other movements	(20,508)	
BALANCE PER INFORMATION MEMORANDUM	127,991	
Net cash outflows from investing activities		
Cash flow from investing activities at 30 June 2006	224,149	
Acquisition of Prime	(29,992)	
Payment to SKY (premerger) minority shareholders (included in financing activities)	(108,004)	
Over estimation of capital expenditure	22,746	
BALANCE PER INFORMATION MEMORANDUM	108,899	
Net cash outflows from financing activities		
Cash flow from financing activities at 30 June 2006	206,475	
Payment to minority holders	108,004	
Finance lease liabilities (difference due to change in lease extension)	(13,594)	
Dividend paid	(17,275)	
Repayment of capital notes	(5,869)	
Termination of executive share options	(9,038)	
Adjustment for cash acquired and repaid	(226,214)	
Other movements	(511)	
BALANCE PER INFORMATION MEMORANDUM	41,978	

AUDITORS' REPORT



TO THE SHAREHOLDERS OF SKY NETWORK TELEVISION LIMITED

We have audited the financial statements on pages 30 to 65. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 2007 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 36 to 44.

DIRECTORS' RESPONSIBILITIES

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 2007 and their financial performance and cash flows for the year ended on that date.

AUDITORS' RESPONSIBILITIES

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

BASIS OF OPINION

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

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

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

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

UNQUALIFIED OPINION

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

IN OUR OPINION:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 30 to 65:
 - (i) comply with generally accepted accounting practice in New Zealand;
 - (ii) comply with International Financial Reporting Standards; and
 - (iii) give a true and fair view of the financial position of the Company and Group as at 30 June 2007 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 16 August 2007 and our unqualified opinion is expressed as at that date.

A handwritten signature of the PricewaterhouseCoopers firm, written in a cursive, script font.

Chartered Accountants
Auckland

OTHER INFORMATION

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CORPORATE GOVERNANCE STATEMENT

BOARD OF DIRECTORS

Membership

SKY's board is elected or appointed by the shareholders of SKY by ordinary resolution. As at 30 June 2007, 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 \$500,000 per annum.

Role of the Board

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

Various information reports are sent to the board in order to keep them informed about SKY's business. Directors also receive operating and financial reports, and access to senior management at board and committee meetings.

Independent and Executive Directors

At 30 June 2007 the independent directors on SKY's board were Barrie Downey, John Hart and Humphry Rolleston. The other directors are not considered to be independent.

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

John Fellet is the only executive director on the board.

Term of Office

Each director, other than Humphry Rolleston, was appointed to SKY's board on 2 May 2005. Humphry Rolleston was appointed to SKY's board on 8 September 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 period between 1 July 2006 and 30 June 2007 the board met eight times, one of which was a telephone conference. Attendance at full board meetings was as follows:

	MEETINGS HELD WHILE A DIRECTOR	ATTENDANCE
Peter Macourt	8	8
Robert Bryden	8	7
Barrie Downey	8	6
John Fellet	8	8
John Hart	8	6
Michael Miller	8	7
Humphry Rolleston	8	5

CORPORATE GOVERNANCE STATEMENT CONTINUED

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 Barrie Downey, Robert Bryden and Humphry Rolleston.

Nomination and Remuneration Committee

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

Related Parties Committee

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

Committee meetings

During the year ending 30 June 2007:

- (a) the audit and risk committee met four times; Robert Bryden attended all meetings and the other members each attended two meetings;
- (b) the nomination and remuneration committee met three times and all members were present; and
- (c) the related parties committee met four times and all members were present.

POLICIES AND PROCEDURES

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

Treasury Policy

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

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

The objective of the policy is to reduce, spread and smooth interest rate and foreign exchange risk impacts on financial results over a multi-year period, eliminate 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.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Remuneration Policy and Performance Monitoring

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

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

Regulatory Policy

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

Health and Safety

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

Insider Trading Policy

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

Code of Conduct

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

Audit and Risk Committee Charter and Audit Independence Policy

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

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

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:

CORPORATE GOVERNANCE STATEMENT

CONTINUED

Independent Directors and Chairman (ASX Recommendation 2.1 and 2.2; NZX Recommendation 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 Nationwide News Pty 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 fulfil 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.

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 9.1 and 9.5):

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 (NZX Recommendation 2.7):

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 period to 30 June 2007.

Confirmation of Financial Statements (ASX Recommendation 4.1):

SKY requires management to confirm in a written statement to the board that the financial statements are true and correct, although the wording of that statement is not exactly the same as the wording set out in ASX Recommendation 4.1.

Attending Audit and Risk Committee Meetings (ASX 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 on SKY's website is appropriate or necessary. The board will review this policy if industry practice changes.

INTERESTS REGISTER

The following are particulars of entries recorded in the Interests Register for the period to 30 June 2007:

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:

Peter Macourt	ENTITY	RELATIONSHIP
	Foxtel Management Pty Limited News Limited and other subsidiaries of The News Corporation Limited Premier Media Group Pty Limited	Director Director/Officer Director
Robert Bryden	ENTITY	RELATIONSHIP
	Crown Castle Australia Pty Limited Crown Castle Australia Holdings Pty Limited Landco Limited Todd Capital Limited Todd Communications Limited and other subsidiaries of The Todd Corporation Limited Provenco Group Limited	Director Director Director Director /Officer Director Director
Barrie Downey	ENTITY	RELATIONSHIP
	Salvus Strategic Investments Limited	Director
John Fellet	ENTITY	RELATIONSHIP
	Media Finance Limited SKY Telecommunications (MR7) Limited Cricket Max Limited	Director Director Director
John Hart	ENTITY	RELATIONSHIP
	Bayley Corporation Limited New Zealand Warriors Limited Global Rugby Enterprises Limited Superlife Trustee Limited Excel Corporation	Director Director Director/Shareholder Director Director
Michael Miller	ENTITY	RELATIONSHIP
	International Newspaper Marketing Association News Limited and other subsidiaries of The News Corporation Limited Premier Media Group Pty Limited Rugby International Pty Limited	Director Director/Officer Director Director
Humphry Rolleston	ENTITY	RELATIONSHIP
	Asset Management Limited Broadway Industries Limited and subsidiaries Fraser MacAndrew Ryan Limited Infratil Limited Ledger Acquisitions Limited Matrix Security Group Limited Property for Industry Limited Media Metro Limited	Director/Shareholder Director/Shareholder Chairman Director Director/Shareholder Director/Shareholder Director Director/Shareholder

INTERESTS REGISTER

CONTINUED

DISCLOSURES OF INTEREST – AUTHORISATION OF REMUNERATION AND OTHER BENEFITS

SKY's board did not authorise any additional payments of annual directors' fees during the period to 30 June 2007.

DISCLOSURES OF INTEREST – PARTICULAR TRANSACTIONS/USE OF COMPANY INFORMATION

During the period to 30 June 2007 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 period to 30 June 2007 in relation to SKY's directors and officers:

- a continuous disclosure was made in the Interests Register as to dealings in SKY capital notes under section 19T(2) of the Securities Markets Act 1988 by John Hart on 15 October 2006 in relation to the disposal of 50,000 capital notes;
- continuous disclosures were made in the Interests Register as to dealings in SKY shares under section 148 of the Companies Act 1993 and section 19T(2) of the Securities Markets Act 1988 by John Fellet on: (a) 25 August 2006 in relation to the acquisition of 9,400 shares; (b) 30 October 2006 in relation to the acquisition of 11,500 shares; (c) 28 February 2007 in relation to the acquisition of 8,100 shares; and (d) 13 March 2007 in relation to the acquisition of 3,000 shares.

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.

SHAREHOLDER AND BONDHOLDER INFORMATION

DIRECTORS HOLDING AND CEASING OFFICE

At 30 June 2007 the following persons were directors of SKY:

Peter Macourt
Robert Bryden
Barrie Downey
John Fellet
John Hart
Michael Miller
Humphry Rolleston

SUBSIDIARIES

At 30 June 2007, SKY had the following subsidiary companies:

New Zealand subsidiaries: SKY DMX Music Limited, Cricket Max Limited, Media Finance Limited and SKY Telecommunications (MR7) Limited. Only SKY DMX Music Limited traded during the period to 30 June 2007.

Amalgamation of certain subsidiaries with SKY: During the year the following subsidiary companies were amalgamated with SKY: INL Holdings Limited, INL Publishing and Independent Publishers Limited.

The following subsidiary companies were liquidated during the year: INL Investments (Australia) Limited, INL Newspapers Limited, INL Bendigo Pty Limited, The Independent Property Company Pty Limited, INL Wimmera Pty Limited, and INL Horshamprint Pty Limited.

DIRECTORS OF SUBSIDIARIES

New Zealand subsidiaries: At 30 June 2007, the directors of SKY DMX Music Limited were Grant McKenzie, Martin Wrigley, Chris Furtado and Bob Baxter. 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 77 or, in the case of John Fellet, his remuneration is disclosed below under the heading "Remuneration of Directors".

STATEMENT OF DIRECTORS' INTERESTS

For the purposes of NZX Listing Rule 10.5.3(c), the following table sets out the equity securities (shares in SKY) in which each director had a relevant interest as at 30 June 2007:

RELEVANT INTERESTS	SHARES
Peter Macourt	-
Robert Bryden	-
Barrie Downey	100,000
John Fellet	65,500
John Hart	25,000
Michael Miller	-
Humphry Rolleston	-

SHAREHOLDER AND BONDHOLDER INFORMATION

CONTINUED

REMUNERATION OF DIRECTORS

Directors' remuneration and value of other benefits received by directors of SKY during the period 1 July 2006 to 30 June 2007 was as follows:

NAME	TOTAL REMUNERATION
Peter Macourt	\$85,000
Robert Bryden	\$82,000
Barrie Downey	\$75,000
John Fellet ⁽¹⁾	\$975,000
John Hart	\$62,500
Michael Miller	\$55,000
Humphry Rolleston	\$55,000

(1) John Fellet is also SKY's chief executive and a director of Cricket Max Limited, Media Finance Limited and SKY Telecommunications (MR7) Limited. However, he did not receive any directors' fees during the above period to 30 June 2007. His remuneration, as specified above, comprises salary and performance based remuneration.

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 23 August 2007:

ENTITY	SECURITIES
Nationwide News Pty Limited	169,854,716
Commonwealth Bank of Australia and Subsidiaries	33,092,791
Todd Communications Limited	43,220,277
AXASA and AXA Asia Pacific Holdings Limited	19,268,827

The total number of issued voting securities of SKY as at 23 August 2007 was 389,139,785

TWENTY LARGEST SHAREHOLDERS AS AT 23 AUGUST 2007

HOLDER NAME	HOLDING	PERCENTAGE [TO 2 D.P.]
Nationwide News Pty Limited	169,854,716	43.65
Todd Communications Limited	43,220,277	11.11
Citicorp Nominees Pty Limited	28,067,817	7.21
National Nominees New Zealand Limited	16,332,069	4.20
HSBC Nominees (New Zealand) Limited	13,605,103	3.50
National Nominees Limited	10,352,342	2.66
TEA Custodians Limited	9,786,955	2.52
NZ Superannuation Fund Nominees Limited	7,372,760	1.89
Accident Compensation Corporation	7,283,739	1.87
HSBC Custody Nominees (Australia) Limited	4,472,829	1.15
Custody and Investment Nominees Limited	4,107,201	1.06
Citibank Nominees (New Zealand) Limited	3,747,205	0.96
ANZ Nominees Limited	3,324,281	0.85
Forsyth Barr Custodians Limited	3,025,108	0.78
Cogent Nominees Pty Limited	2,977,181	0.77
Premier Nominees Limited	2,658,757	0.68
J P Morgan Nominees Australia Limited	2,518,049	0.65
Asteron Life Limited	2,022,168	0.52
Public Trust – Australian Equity Nominees Pool	1,899,653	0.49
AMP Investments Strategic Equity Growth Fund	1,778,087	0.46

SHAREHOLDER AND BONDHOLDER INFORMATION

CONTINUED

DISTRIBUTION OF ORDINARY SHARES AND SHAREHOLDINGS AS AT 23 AUGUST 2007

	NO. OF SHAREHOLDERS	PERCENTAGE (2 D.P.)	NO. OF SHARES	PERCENTAGE (2 D.P.)
1 – 1,000	2,642	34.42	1,709,143	0.44
1,001 – 5,000	3,638	47.40	9,105,703	2.34
5,001 – 10,000	774	10.08	5,573,157	1.43
10,001 – 100,000	532	6.93	12,693,215	3.26
100,001 – and over	90	1.17	360,058,567	92.53
TOTAL	7,676	100.00	389,139,785	100.00

NON MARKETABLE PARCELS OF SHARES

As at 23 August 2007, 117 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 23 August 2007:

- no securities in SKY were subject to voluntary escrow;
- there was no on-market buy-back; and
- SKY was not subject to s611 of the Corporations Act 2001.

VOTING RIGHTS ATTACHED TO SHARES

Each share entitles the holder to one vote.

DISTRIBUTION OF BONDS AND BONDHOLDINGS AS AT 23 AUGUST 2007

	NO. OF BONDHOLDERS	PERCENTAGE (2 D.P.)	NO. OF BONDS	PERCENTAGE (2 D.P.)
1 – 1000	–	–	–	–
1,001 – 5,000	249	8.91	1,245,000	0.62
5,001 – 10,000	637	22.78	6,122,000	3.06
10,001 – 100,000	1,803	64.48	62,207,000	31.10
100,001 and over	107	3.83	130,426,000	65.22
TOTAL	2,796	100.00	200,000,000	100.00

VOTING RIGHTS ATTACHED TO BONDS

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

SHAREHOLDER AND BONDHOLDER INFORMATION

CONTINUED

EMPLOYEE REMUNERATION

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

REMUNERATION \$	NUMBER OF EMPLOYEES
100,000 – 110,000	18
110,001 – 120,000	9
120,001 – 130,000	3
130,001 – 140,000	1
140,001 – 150,000	2
150,001 – 160,000	5
160,001 – 170,000	1
170,001 – 180,000	1
180,001 – 190,000	3
190,001 – 200,000	2
210,001 – 220,000	2
220,001 – 230,000	3
240,001 – 250,000	1
260,001 – 270,000	1
280,001 – 290,000	1
360,001 – 370,000	1
370,001 – 380,000	1
380,001 – 390,000	1
390,001 – 400,000	1
400,001 – 410,000	1
420,001 – 430,000	1
460,001 – 470,000	1

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

DONATIONS

During the period 1 July 2006 to 30 June 2007, SKY made donations totalling \$44,709. 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 2007 for statutory audit services was \$138,000, for other audit and due diligence services (predominately relating to the bond prospectus issued during the year) was \$66,000 and for other advisory services was \$7,000. SKY DMX Music Limited paid PricewaterhouseCoopers \$7,000 in audit fees during the 2007 year and did not pay PricewaterhouseCoopers for any other services. SKY's other subsidiaries did not pay PricewaterhouseCoopers any fees.

WAIVERS AND INFORMATION

CURRENT AND ONGOING WAIVERS

Set out below are the waivers granted in favour of SKY which were applicable at 30 June 2007, in addition to information relating to SKY's admission to the official list of the ASX.

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

- (a) a waiver to permit SKY to lodge its half-yearly and final reports in the form of an NZX Appendix 1 instead of an ASX Appendix 4D and ASX Appendix 4E, on the condition that SKY provides any additional information required by the ASX appendices as an annexure to the NZX Appendix 1;
- (b) a waiver from ASX Listing Rule 6.10.3 to the extent necessary to permit SKY to set the "specified time" to determine whether a security holder is entitled to vote at a shareholders' meeting in accordance with the requirements of relevant New Zealand legislation;
- (c) a waiver from ASX Listing Rule 7.1 to the extent necessary to permit SKY to issue securities under an off-market bid or to fund the cash consideration of a takeover bid, and ASX Listing Rule 10.11 to the extent necessary to permit SKY to issue securities to directors under an off-market bid, which is in each case required to comply with the New Zealand takeovers regime or an issue made pursuant to an arrangement, amalgamation or compromise effective pursuant to Part XIII or Part XV of the New Zealand Companies Act, without prior approval of shareholders in general meeting on the condition that at the relevant time the New Zealand Takeovers Code and any other applicable legislation governing corporate takeovers and mergers continues to provide a regime that is comparable to Australian law;
- (d) a waiver from ASX Listing Rule 15.7 to permit SKY to provide announcements simultaneously to both ASX and NZX;
- (e) a waiver from ASX Listing Rule 14.3 to the extent necessary to allow SKY to receive director nominations between the date three months and the date two months before the annual meeting;
- (f) confirmation that SKY is not required to lodge accounts for the last three full financial years in accordance with ASX Listing Rule 1.3.5(a) in connection with its application for admission and quotation;
- (g) confirmation that the rights attaching to SKY shares set out in SKY's constitution are appropriate and equitable for the purpose of ASX Listing Rule 6.1 and comply with ASX Listing Rule 2.1;
- (h) confirmation that ASX will accept financial accounts prepared in accordance with New Zealand GAAP and New Zealand Auditing Standards, and denominated in New Zealand dollars;
- (i) confirmation that SKY can provide substantial holder information provided to it under the New Zealand Securities Markets Act 1988; and
- (j) confirmation that SKY's structure and operations are appropriate for an ASX listed entity for the purposes of ASX Listing Rule 1.1 (condition 1).

ADMISSION TO THE OFFICIAL LIST OF THE AUSTRALIAN STOCK EXCHANGE

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

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

SHAREMARKET AND OTHER INFORMATION

NEW ZEALAND

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

New Zealand Exchange Limited, Level 2, NZX Centre, 11 Cable Street, Wellington, New Zealand.

Mailing address: P.O. Box 2959, Wellington, New Zealand.

Tel: 64 4 472 7599; Fax: 64 4 496 2893; Website: www.nzx.com

AUSTRALIA

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

Australian Stock Exchange, Exchange Centre, 20 Bridge Street, Sydney, NSW 2000, Australia.

Mailing address: P.O. Box H224, Australia Square, Sydney, NSW 1215, Australia.

Tel: 61 2 9338 0000; Fax: 61 2 9227 0885; Website: www.asx.com.au

FINANCIAL CALENDAR

2006/2007 Financial year end	30 June 2007
2006/2007 Full year results announced	17 August 2007
Next Annual Meeting	26 October 2007
2007/2008 Half year results announced	February 2008
2007/2008 Financial year end	30 June 2008
2007/2008 Full year results announced	August 2008

ANNUAL MEETING

The next annual meeting of Sky Network Television Limited will be held at the Rendezvous Hotel, Auckland, New Zealand, on 26 October 2007, commencing at 2 p.m.

DIRECTORY

REGISTRARS

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

NEW ZEALAND ORDINARY SHARE REGISTRAR

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna,
Auckland, New Zealand
Mailing address: Private Bag 92119,
Auckland 1142, New Zealand
Tel: 64 9 488 8700; Fax: 64 9 488 8787
Email: enquiry@computershare.co.nz

AUSTRALIAN BRANCH REGISTER

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street,
Sydney, NSW 2000, Australia
Mailing address: G.P.O Box 7045,
Sydney, NSW 2001, Australia
Tel: 61 2 8234 5000; Fax: 61 2 8235 8150
Email: 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

DIRECTORS

Peter Macourt (Chairman)
Robert Bryden (Deputy Chairman)
A. Barrie Downey, CBE
John Fellet (Chief Executive)
John Hart, ONZM
Michael Miller
Humphry Rolleston

EXECUTIVES

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

NEW ZEALAND REGISTERED OFFICE

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

AUSTRALIAN REGISTERED OFFICE

c/- Allens Arthur Robinson Corporate Advisory Pty Limited
Level 4, 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

AS AT 30 JUNE 2007

TYPES OF CHANNELS

Basic channels	23
Sport tier channels	4
Movie tier channels	5
Interactive channels	5
Free-to-air channels	7
Special interest channels	15
Radio channels	9
Audio music channels	14
PPV Movie channels	16
PPV event channels	1
PPV adult channels	3
TOTAL	102

BASIC CHANNELS - 23

BBC World
 SKY News Australia/New Zealand
 CNN
 The History Channel
 National Geographic
 Discovery Channel
 Animal Planet
 UKTV
 SKY 1
 Nickelodeon
 Cartoon Network
 Disney
 Juice TV
 J2
 E!
 The Living Channel
 ESPN
 Food Television
 Playhouse Disney
 Alt TV
 MTV
 Documentary Channel
 FOX News

SPORT TIER - 4

Sky Sport 1
 Sky Sport 2
 Sky Sport 3
 Rugby Channel

MOVIE TIER - 5

SKY Movies
 SKY Movies 2
 MGM
 TCM
 Rialto

INTERACTIVE CHANNELS - 5

Weather Channel
 SkyBet Sport
 SkyBet Trackside
 Playin' TV
 MindGames

FREE-TO-AIR CHANNELS - 7

TAB Trackside
 TV One
 TV2
 TV3
 C4
 Prime
 Maori Television

SPECIAL INTEREST - 15

Arts Channel
 Shine Television
 Cue
 CCTV-9
 World TV - 10 channels
 STAR PLUS - Hindi

RADIO CHANNELS - 9

George FM
 National Radio
 Concert FM
 Niu FM
 Calvary Chapel Radio
 Tahu FM
 Kiwi
 Real Good Life (World TV)
 New Supremo (World TV)

OTHER

Audio music channels	14
PPV movie channels	16
PPV event channels	1
PPV adult channels	3

TOTAL - 102

