

SKY

ANNUAL REPORT

SKY NETWORK TELEVISION LIMITED
JUNE 2013



COME WITH US

EVERY DAY WE'RE ON AN ADVENTURE



LESLEY BANKIER

AS THE RECEPTIONIST

Fanatical about Food TV

I love sweet endings. Whether I'm behind the front desk or attempting recipes from Food TV, I'll do my best to whip it all into shape and serve it with a smile.

COME WITH US





FORGING NEW GROUND AND BRINGING CUSTOMERS EXPERIENCES THEY NEVER KNEW EXISTED



NADINE WEARING

AS THE SENIOR MARKETING EXECUTIVE

Fanatical about SKY Sport

I'm passionate about getting the right message, to the right person, at the right time. Especially on a Saturday night when the rugby is on SKY Sport. Run it Messam! Straight up the middle!

COME WITH US







**TOGETHER
WE CAN GO
ANYWHERE**

OPENING CREDITS

7	HIGHLIGHTS
8	CHAIRMAN'S LETTER
10	CHIEF EXECUTIVE'S REVIEW
14	EXECUTIVE COMMITTEE
16	BUSINESS OVERVIEW
22	COMMUNITY AND SPONSORSHIP
24	FINANCIAL OVERVIEW
30	BOARD OF DIRECTORS
<hr/>	
33	2013 FINANCIALS
34	Financial Trends Statement
37	Directors' Responsibility Statement
38	Income Statement
39	Statement of Comprehensive Income
40	Balance Sheet
41	Statement of Changes in Equity
42	Statement of Cash Flows
43	Notes to the Financial Statements
83	Independent Auditors' Report
<hr/>	
84	OTHER INFORMATION
86	Corporate Governance Statements
89	Interests Register
91	Company and Bondholder Information
95	Waivers and Information
96	Share Market and Other Information
97	Directory
98	SKY Channels

HIGHLIGHTS

TOTAL REVENUE

\$885m

TOTAL SUBSCRIBERS

855,898

EBITDA

\$353m

ARPU

\$75.83

CAPITAL EXPENDITURE

\$82m

NET PROFIT

\$137.2m

EMPLOYEES FTEs

1,118

MY SKY SUBSCRIBERS

456,419



**“THE 17-DAY COVERAGE
OF THE LONDON
OLYMPICS WAS
UNPRECEDENTED
IN NEW ZEALAND ...
VIEWERSHIP NUMBERS
SHOWED KIWIS LOVED
THE COVERAGE ON
BOTH PRIME AND SKY.”**

PROFIT INCREASE

10.9%

INCREASE IN MY SKY CUSTOMERS

19.3%

CHAIRMAN'S LETTER

It has been another exciting and challenging year for SKY. Cautious consumer spending, the delayed launch of IGLOO, a flat advertising market, and continuing competition for programme rights have all contributed to a difficult operating environment. Despite this, John Fellet and his team have produced record earnings with net profit growing to \$137 million in 2013. In addition, the company paid a special dividend of 32 cents per share totalling \$125 million in December 2012.

Revenue increased 5% to \$885 million due to an increase in subscribers to 855,898 and more significantly we saw an increase in ARPU, or average revenue per subscriber, with the continued take up of MY SKY and additional services. There are now 456,419 MY SKY customers – that's 55% of our residential customers enjoying the benefits of our personal video recorder. Advertising sales grew to \$68 million in a challenging television advertising market which has still not recovered to the expenditure levels of 2008. Churn remains steady at 14.4%, up very slightly from 14.2% last year.

The 2013 year saw the sell down of major shareholders News Limited and Todd Communications Limited. The board would like to acknowledge the commitment and support both shareholders provided to the company over many years. We do not expect the departure to affect any commercial relationships with News. SKY has worked closely with News' associates such as Foxtel and BSkyB and will continue to do so. We welcome the many new shareholders to the company.

As an outcome of the share ownership changes, Michael Miller resigned as a director of the company. We thank Michael for his service and contribution and wish

him well for the future. Michael's departure coincided with our regular review of the composition and skills set of the board and we expect to announce new appointments before the Annual General Meeting.

Operational initiatives during the year included SKY's broadcast of the London Olympics. The 17 days of coverage was unprecedented in New Zealand. We offered eight dedicated channels, and Prime, our free-to-air channel, gave New Zealanders around 23 hours' Olympic viewing daily. While the viewership numbers showed Kiwis loved the coverage on both Prime and SKY, the revenue generated was disappointing.

In other programming developments the Jones! channel was launched in May 2013 and has quickly risen to one of the top five rating channels on offer. Prime acquired an output agreement with CBS which will strengthen our free-to-air offering over the next several years. SKY was outbid for exclusive live rights to the broadcast of the English Premier League (EPL) for the next three years. Delayed broadcast rights of four major clubs have been acquired which will enable the broadcast of those clubs' home and away fixtures each week.

Much has been written about the loss of the EPL but SKY has been outbid for rights in the past. There has always been competition for both entertainment and sports rights and there will continue to be, especially as internet-delivered content, becomes more viable. SKY has firm plans to further embrace internet-delivered content with significant developments due to launch during the next financial year.

IGLOO was launched in December as a low-cost pay television service with IP connectivity. The launch was later than we had hoped due to difficulties in stabilising

the set top box. The initial take up has been a little disappointing but a recent pricing change is showing positive signs.

We have recently renewed our agreement with Vodafone and we are very excited about the prospects of this partnership. At the time of writing this report the Commerce Commission has not concluded their investigation into SKY's content and retail internet service provider agreements.

This year a programme of work was implemented to refresh the SKY brand. This is only just under way. It will enhance SKY as a place to work as well as improving our customer and community relationships. In the broader community, we were very proud to announce a \$1 million commitment to the Christchurch Earthquake Appeal Trust to be put towards sport and recreation projects over five years.

Your board and management are committed to building shareholder value and ensuring the future growth of the Company. Your board and management are also committed to maintaining a strong balance sheet while continuing to review capital management.

On behalf of the board of SKY, I would like to thank all our shareholders for their support. I'm delighted to announce a final dividend of 12 cents per share.

To our Chief Executive Officer, John Fellet, his senior management team and all SKY staff and contractors, I thank you for your commitment and achievement over the past year.



Peter Macourt
Chairman



THE DIRECTOR'S CUT

**CHIEF
EXECUTIVE'S
REVIEW**

“WE WANT TO BE THE COMPANY THAT NEW ZEALAND CONSUMERS USE TO IDENTIFY, RECOMMEND AND DELIVER THEIR ENTERTAINMENT.”

TOTAL SKY SUBSCRIBERS

855,898

TOTAL MY SKY SUBSCRIBERS

456,419

(55.5% of all SKY subscribers)

Dear Shareholders,

This is the twelfth CEO letter that has been my privilege to write for shareholders. My goal, as always, is to draft this letter as if it was going to an overseas shareholder whose only knowledge about the Company was gleaned from this annual report.

The financial information contained in this report is quite detailed but still can only give you a financial snapshot of the business. In my letter I would like to highlight several important industry trends you should be across.

In thinking about SKY it is important to know that we do not consider ourselves a pay television company or, for that matter, a satellite company. If I was forced to hang a description on us, I would say we are an entertainment delivery company. We define entertainment as including, but not limited to, movies, television series, music, sports, documentaries and news.

Our subscriber base is quite a diverse lot. Everyone has their group of four or five channels where they spend 90% of their viewing time, but nobody has the same group. Some would like me to offer their content on a channel-by-channel basis, others believe all channels should be available on a single tier basic service.

I recently heard from a subscriber planning to buy the latest 65-inch ultra high-definition television. In the same week my taxi driver said he saw no reason to upgrade his 21-inch analogue television set. Some of our subscribers watch only live TV while others are devoted to our MY SKY decoder.

Serving a client base this diverse is what we do.

In my 36 years in the industry I have never seen a period of technological advancement coupled with such an onslaught of new business models. (More on this later.) At the same time, overall content demand and usage has never been higher.

Our customer and non-customer base now face the choice of numerous options.

We want to be their trusted brand in this emerging space. We also want to be the company that New Zealand consumers use to identify, recommend and deliver their entertainment.

We have a great deal of unique and successful experience we are leveraging to achieve this aim. SKY was the first company to offer satellite content that covered 100% of New Zealand. We were the first to announce we were going to offer high definition services. We were the first to offer channels over mobile phones. We were the first New Zealand broadcaster to stream channels over the internet. If we are to survive and thrive we must continue to be seen as the “expeditionary leader” for New Zealand households.

Operationally it was a good year as measured by the majority of our key performance indicators. Net profit, cash flow, subscriber growth, and customer services all reached record levels. I would have liked to have seen net customer gain figures continue their trajectory of the last few years, but I do not think we have matured yet, despite recent speculation on that point.

We need to continue to explore new business models to help grow our subscriber count. IGLOO was an example of this. The no-frills pay television model delivered by this terrestrial digital player promises to be a good model to attract a segment of the market we have failed to attract with our conventional satellite pay television model.

Around the world the pay television companies that are growing tend to be those that offer a triple-play option (phone, internet and television). That’s why we have current agreements with Vodafone and Telecom and a historical record of working with all of the telcos. The other option that seems to attract a growing number of subscribers is the SVOD (subscription video on demand) model where subscribers pay a fixed monthly fee to have access to a pool of content. SKY hopes to participate in this model during 2014.

TRENDS IN THE INDUSTRY – CONTENT COST ESCALATION AND NEW APPROACHES

Valuable content was costly 23 years ago when we started SKY. It is expensive now and trust me will be at least equally expensive in the future. If SKY has a core competency, it is our ability to know what that value is to our subscriber base – which in turn drives the price we are prepared to pay for that content.

For years at SKY we knew the price of everything but the value of nothing. Since then, we have put a lot of research into how our customers relate to content. This allows us to determine how we allocate our programming budget to maximise customer impact.

This does not always mean we are successful. A few years ago we were bidding for a major Hollywood output deal from one of Hollywood’s most successful studios for first run rights of their new dramas and comedies that were some of the most successful series running in the United States at the time.

This content normally runs on large free-to-air (FTA) networks who can monetise the value better than any other model. Our FTA network, Prime, was in the bidding with the other two major FTA companies in New Zealand. We stayed in the bidding for the first two rounds until we felt the content reach the “price of perfection”. At that point we dropped out of the bidding.

The price of perfection assumes that the content acquired can only grow in value and the earnings streams related to that value – be it advertising sales (in a FTA market) or our pay television value drivers – can only continue to grow. At the point of perfection, the content shifts from being an asset and slips into being a liability.

Our two competitors continued to raise the stakes for a few more rounds. Soon after the bidding was over our industry started facing the effects of the global financial crisis which we still have not recovered from. (In fact, television advertising revenues still have not reached the highs recorded in 2008.)

"NET PROFIT, CASH FLOW, SUBSCRIBER GROWTH AND CUSTOMER SERVICES ALL REACHED RECORD LEVELS."

At the same time the studio's assembly line of new hit television series started to cool. The output deal took the "winner" to its financial brink. Winning the bid is the easy part, amortising the content sometimes is a little trickier.

We are now seeing increasing pressure on these output-style arrangements and indication from broadcasters both here and overseas that this may not be the preferred model. At the same time we are seeing a rise in the independent production market which presents additional opportunities.

Just because we use a lot of big data does not make us infallible. We were burnt by the Winter Games of 2010 and the Summer Games of 2012, where we were the "successful bidder". Our goal was to use every minute from every event that was filmed and show the content on a suite of channels. For the Summer Games this included eight high definition channels and five standard definition channels in addition to Prime's coverage. We required numerous HD feeds coming back from London and scores of people in both London and Auckland to do everything from interviewing the race winner to ingesting the content when it arrived at our studios. It was an amazing effort and the most critically acclaimed thing SKY has ever done. Unfortunately the effort and the costs did not cover all the key performance indicators we use to measure content value.

We learnt a lot from our efforts but if we are to do this again we must shave our costs, an inevitable consequence of operating in a smaller market.

While this year we have added to our sporting franchises such as V8s and the New Zealand Women's Black Ferns Rugby Championship, we have lost two other major sports competitions to competitive platforms whose economics are as yet untested. We always run the risk of losing content to a new competitor who is willing to roll the dice and have a go. There is nothing new here. But we are flexible enough to adjust our value model or, when needed, our business model.

We continue to look for pricing anomalies where content is undervalued by our competitors, sometimes because of their own business models. Two recent examples are SoHo and the Jones! channels, which are at opposite ends of the content spectrum.

Without a doubt, the best dramas being produced in the world right now are coming from premium pay television channels in the United States. These shows include

Mad Men, Breaking Bad, Game of Thrones, Hell on Wheels and Girls. These shows tend to be graphic, expensive, dark, not advertising friendly and thus don't seem to work for the FTA networks.

If the FTA networks do acquire them as part of output deals, they tend to play them late, where they have trouble building an audience, or drop them after a few weeks.

But this content has always had a core audience who were devoted to it. Travis Dunbar, Head of Programming: Movies, Factual and G.E., and his team came up with a new model for this content. He proposed a stand-alone premium channel which would be the home for this unique content. SoHo has been one of our biggest programming successes.

Likewise, Jones! has been a huge success for us. Once again Travis and his team saw the value for a channel which collected the most treasured television that once aired in this country, often decades ago. Within four months Jones! was rated in our top five basic channels. This same content spread out and placed in our other channels would not get a mention. But located in one spot, it creates real value and brand.

TRENDS – DISRUPTIVE TECHNOLOGY

"Disruptive technology" is a term often associated with start-up companies introducing a new way of doing things. Normally the new company has low or non-existent margins which look unattractive to incumbents.

I expect the buggy industry ignored Henry Ford when he launched the Model T just like Ford did when the first Japanese and Germany imports came into America.

Make sure you don't think we take any of these new entrants lightly. SKY is disruptive technology. It is in our DNA. We will continue to evaluate and perhaps initiate new business models that come along even if it runs the risk of cannibalising our own business.

Pay-per-view movies (PPV) was a good example of this. There was criticism from the financial circles when we first announced plans to launch over a PPV movie service. Some believed that we were harming a lucrative movie tier service. I felt it was better to cannibalise our own business before someone else did so. As it turned out, within a month, while there was some churn in the movie tier, the combined tier and PPV service were generating more revenue and cash flow than from just the movie tier alone.

“SKY IS DISRUPTIVE TECHNOLOGY. IT IS IN OUR DNA.”

We think the best stewardship of shareholder capital is to be fast followers. This plan saved us millions when 3D was supposed to be a mandatory service that every broadcaster had to offer. At the end of the day, the winners in our industry will be those companies who build the businesses that amortise content the most efficiently. To do that, one has to be willing to continually evolve.

TRENDS – SHAREHOLDER MIGRATION

In the last six months two shareholders representing some 54% ownership of the company sold their interest in SKY, independently of each other.

I could not have asked for better shareholders. Both were stable, long term investors. Todd Communications Limited (Todd) had been a shareholder for over 20 years and News Limited (News) for over 10 years. Both shareholders always took a long term view for the company. As a CEO, you could not have asked for better investors. Fortunately, while we lost the shareholders, we have retained the two board members, namely our Chairman Peter Macourt (formerly of News Corporation Limited) and Robert Bryden (formerly of Todd Capital Limited).

This is the third change of control the company has had in its history. On each occasion there was the refrain that the “smart money” was leaving SKY – and each time SKY continued to grow. Both shareholders briefed me after the fact when they sold and the reasons were completely different from each other.

Just to clear up some misconceptions, it is important that you know that neither shareholder provided any balance sheet support in the form of loan guarantees.

While we did purchase content from News’ subsidiaries, it should be noted that we did that before News bought in, and we continue to purchase after their sell down.

It is also important to know the transactions were always done at arm’s length. The best example I can think of is the first run television series from 20th Century Fox, which is arguably some of the most valuable content available in New Zealand. Television New Zealand and MediaWorks have always been their contracted partners.

On the technology front, we still continue to work with Foxtel and BSkyB on set top developments.

TRENDS – REGULATORY ISSUES

Historically there was a clear line of difference between pay television and FTA. Pay television’s content tended to be sports, 24-hour news channels, first run movies, factual and themed channels such as Discovery and History Channel. The FTA networks were more the home for local news shows, local current events, and general entertainment segments covering a broad range of content which included first run drama and comedy series.

Now the lines are blurred with no clear boundary between pay television and FTA. This has all happened with the launch of two initiatives – FreeView and the internet.

FreeView for the most part eliminated the bottleneck of limited spectrum which allowed new FTA channels to launch. The internet introduced a cheap and virtually unlimited capacity delivery platform which allowed new business models to develop.

In New Zealand we now see FreeView channels Choice TV and Sommet Sports taking on The Living Channel and SKY Sports respectively. Our SoHo and UKTV channels are acquiring first run content historically reserved for FTA. First run movies are being offered on apple TV via the internet. Netflix is creating first run dramas some of which now appear on both TVNZ and MediaWorks channels. All companies and platforms are acquiring content out of the same pool and seeking the same eyeballs.

One would think that, with more competition now than in the history of the New Zealand media industry, the call for regulation would be muted by market realities. But it is still being voiced by two distinct groups at opposite ends of the spectrum.

The first group would be those trying to protect the status quo, or probably more accurately the status quo 10 years ago. This group would prefer we stay in a world where the FTA stations were at the top of the food chain. They often argue that they want a “more level playing field” between pay television and FTA stations when in fact they mean the opposite.

The definition of a level playing field is a situation where no external interference affects the ability of the players to compete fairly. In other words, letting the consumers determine outcomes. While turning the clock back with regulatory intervention may seem like a romantic notion, the unintended consequences would be major and in the end technology and market forces will win out.

The second group, rather than wanting to hold to status quo, typically want to implement their particular vision of the future. Some participants have come out of the telecommunication industry where much effort was spent on fighting for and against regulations. Some want to use content to determine outcomes in unrelated fields such as fast broadband take up. This is particularly interesting in light of the fact that most countries with large, fast broadband take up have no such rules. Some are out of the internet industry, which I always find ironic in that, without a doubt, the internet, which has had the greatest impact on society than any other invention since electricity, was developed by market forces and with little regulation.

My favourite claim against SKY is that somehow through our programming deals we have been able to block over-the-top internet providers such as Hulu and Netflix from launching in New Zealand. If this was true I would be the only CEO in the world to have this magic legal formula. However I have to admit knowing no such formula.

It is a dynamic business in a state of ongoing change with continued opportunities and challenges. I believe SKY, with its years of successful experience, keen knowledge of content and delivery, continues to be well placed to meet the challenges and seize the opportunities. We will continue to manage this situation in the best interest of our subscribers and shareholders.

Don’t forget to attend the Annual General Meeting, held this year at the Langham Hotel, on the 24th of October at 2pm.



John Fellet
Chief Executive Officer

CHARLES INGLEY

As the Director of Technology

Television held a particular fascination for Charles from an early age and it was inevitable that he found his way from the King Country to the bright lights of Auckland and a career that has covered most of what broadcasting has to offer in New Zealand.

JASON HOLLINGWORTH

As the Chief Financial Officer and Company Secretary

Jason has always enjoyed a challenge – providing corporate finance advice to New Zealand companies during the late 80s-early 90s, developing power stations in Asia, investing treaty settlement monies for Ngai Tahu, being CFO for TelstraSaturn's roll-out of a competing telecommunications network. He has been CFO at SKY for 11 years and loves dealing with the challenges of growing the company in a fast-moving media environment.

KIRSTY WAY

As the Director of Corporate Communication

As with Kirsty's early career in snowboarding, her time at SKY has seen her exploring all sorts of terrain – launching interactive channels, business development, managing telecommunication agreements and relationships, and on to her dream role heading up corporate communications. It's been some ride!

THE CAST EXECUTIVE COMMITTEE



MICHAEL WATSON

As the Director of Marketing

Michael Watson came to New Zealand in 1990. If you recognise him it may be because he tried to sell you a SKY subscription a few years back. He has risen through the ranks, starting out in door-to-door sales when SKY had barely 20,000 subscribers and just three channels.

CATHRYN OLIVER

As the Chief of Staff

Cathryn's journey to SKY started at Ernst and Young. She then spent seven years in the UK holding various financial reporting roles at Lloyds TSB (UK) and then BSKYB. She joined the SKY family in 2000 and hasn't looked back.

RICHARD LAST

As the Director of Sport

Richard arrived in Auckland in 1994 from London with an orange push bike and not much else. He's been on an adventure ever since, from customer services, to advertising and sponsorship sales, to the leading role in the sports department. Go Richard!

GREG DRUMMOND (Not pictured)

As the Director of Broadcast Operations

As a school leaver Greg was lucky enough to score a fantastic job with NZBC and was involved in launching TV2. Lucky break huh?! Technically qualified, operationally fluent and trained in production, this industry veteran still thrives on making exciting television.

JOHN FELLET

As the Director and Chief Executive Officer

John joined SKY as chief operating officer in 1991, was appointed chief executive officer in January 2001 and a director in April 2001, bringing over 30 years' experience in the pay television industry to New Zealand.

RAWINIA NEWTON

As the Director of Advertising Sales

Rawinia is passionate about television advertising. It informs, entertains, educates and gets results. And as she will readily tell you, no other broadcaster has the breadth of content and opportunities that SKY offers advertisers. What's not to love?

TRAVIS DUNBAR

As the Director of Programming – Movies, Factual and G.E.

Travis had seen Dirty Harry, The Wild Bunch, and Taxi Driver over 30 times each by the time he was 22. Maybe that's why SKY hired him to run the Movie channels at the end of 1994 and has been indulging this obsession ever since.



MARTIN WRIGLEY

As the Director of Operations

Martin was born in England and lived in four different countries before finally calling New Zealand home. A winter sports fan and an avid DIY enthusiast (aren't all Kiwis?), it's probably not surprising then that his favourite TV shows are found in the sport and documentary genres.

MEGAN KING

As the Director of Content – Strategy, Planning & Delivery

1990 was a big year for Megan: New Zealand hosted the Commonwealth Games; she got married the day of the closing ceremony; and in May she jumped out of a great job and began a thrilling 23-year expedition with SKY where she now rallies the team to plan and deliver future capability.

MARTIN ENRIGHT

As the Director of Content Acquisitions

Martin was appointed to the role of Director of Content Acquisitions in 2013 after a stint as head of business development for APAC for Warner Bros. International TV Distribution. Good to have you home, Martin.



THE SCRIPT

BUSINESS OVERVIEW

Subscribers

01 SKY has continued to increase its total subscriber base in the year to 30 June 2013 by adding a net 8,967 subscribers.

There were a total of 855,898 subscribers at 30 June 2013, with 822,545 being residential subscribers on SKY's satellite platform. SKY's wholesale customers have increased by 1.7% to 131,555 at 30 June 2013.

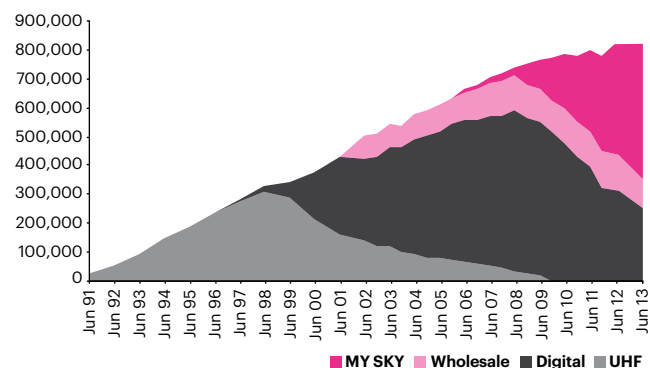
SKY has continued to promote its MY SKY HDi decoder and, at 30 June 2013, the number of subscribers receiving their pay television services via a MY SKY decoder were 456,419 compared to 382,495 subscribers at 30 June 2012. This represents 55.5% of SKY's residential subscribers compared to 46.7% of residential subscribers at 30 June 2012. There were 24,859 "other" subscribers at 30 June 2013 which includes subscribers to SKY's commercial music business SKY DMX Music, SKY's DVD rental business, Fatso and residential subscribers to Igloo launched in December 2012.

Churn

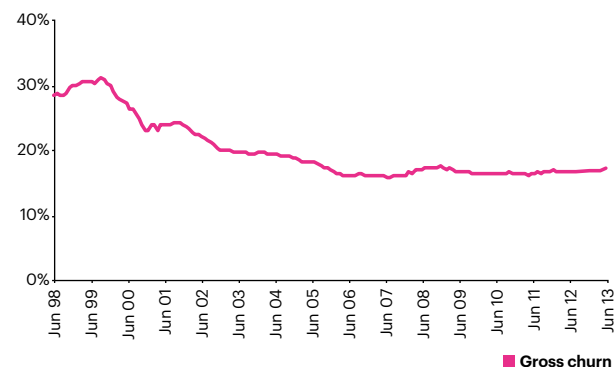
02 Churn is a measure of the percentage of subscribers who disconnect their service, either voluntarily or due to a failure to pay their account. SKY calculates churn on a rolling gross annual basis, which means that each month we calculate the subscribers who have disconnected as a percentage of the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

Annual gross churn is 14.4% as at 30 June 2013 which is a slight increase from the 14.2% churn for the year to 30 June 2012. MY SKY churn has increased from 10.4% in the prior year to 11.4% in the current year and churn on standard digital decoders has increased to 17.9% from 17.1% last year.

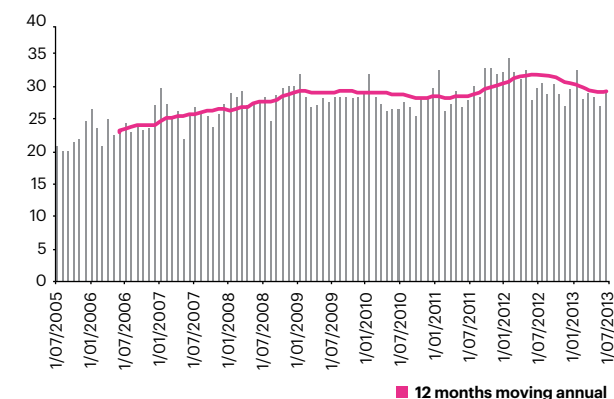
01 Subscribers



02 Rolling annual gross churn



03 SKY TV - % Share of viewing in all New Zealand homes



BUSINESS OVERVIEW (CONTINUED)

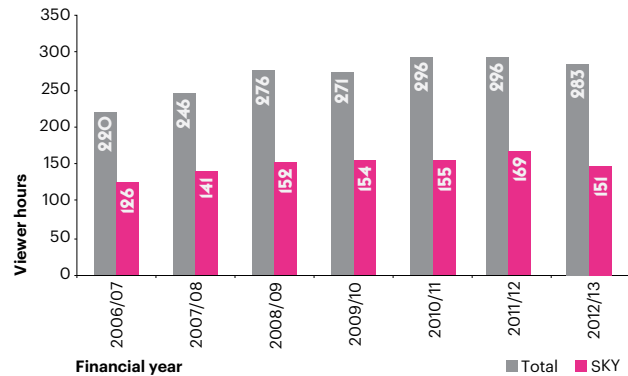
Viewing

03/04 During the 2013 year, the subscriber viewing information collected has shown a decline in total viewing of 4% from 296 hours to 283 hours per month. This trend has continued onto the viewing of SKY channels which declined by 11% from 169 hours per month to 151 hours in the current year, mainly as a result of the previous year's Rugby World Cup viewing. This resulted in a decrease in SKY's share of total television viewing in all New Zealand from 29.8% to 28.7%. Information for these numbers is collected from the Nielsen TAM audience measure system and SKY TV's subscriber base.

PPV buys

05 SKY continues to offer pay-per-view (PPV) programming on its satellite platform, with 12 scheduled PPV channels plus an "on-demand" movie service that is offered to MY SKY subscribers. Buy rates, which measure the percentage of subscribers who purchase a title each month, have decreased from 15.6% in 2012 to 13.6% in the current year. In 2013 a total of 1,272,561 PPV buys were purchased compared to 1,450,984 buys purchased in 2012. 26% of PPV buys were attributable to the MY SKY "on-demand" service, compared to 23% in 2012.

04 Average hours viewing SKY digital per month, per subscription



05 PPV buys



“SKY HAS CONTINUED TO INCREASE ITS TOTAL SUBSCRIBER BASE IN THE YEAR TO 30 JUNE 2013 BY ADDING A NET 8,967 SUBSCRIBERS.”

Programming initiatives

The biggest programming initiative for SKY in 2013 was the 17-day coverage of the London summer Olympics in August 2012. SKY broadcast eight dedicated high definition Olympic channels, five of which were simulcast in standard definition. SKY's free-to-air channel, Prime, also provided 23 hours per day of coverage. The Olympics were a huge success from a viewership and customer satisfaction perspective but negatively impacted SKY's financial results for the period due to high production costs and lower than expected advertising revenue.

Three new channels were launched in 2013:

The Shopping Channel: Launched on 1 October 2012.

The Shopping Channel is New Zealand's first dedicated retailing TV channel, bringing a wide variety of brands to New Zealand that wouldn't normally be accessible to New Zealanders.

Jones!: Launched on 13 May 2013.

Jones! comprises an eclectic mix of programming favourites ranging from Bonanza, The Good Life, Porridge, Shogun and Cheers through to Charlie's Angels, Twin Peaks, Columbo, Kojak, Mork & Mindy, Dallas, The Sweeney, Thunderbirds and Minder!

SKY Movies Classics: Launched on 1 June 2013.

SKY Movies Classics replaces our longstanding MGM Movies channel. While the channel will continue to offer the best MGM titles it will also show a much wider range of classic movies from the 60's, 70's, 80's and 90's with content from studios like Paramount, Universal, Warner's and Sony Pictures.

iSKY

iSKY was launched in January 2011 as SKY's online TV service, giving SKY subscribers access to an extensive selection of online content streamed directly to personal computers. iSKY offers a great variety and choice of video content within a single service including the streaming of four live sport and two live news channels, plus the ability to catch up on recently broadcast content at no cost for SKY's basic channels including free-to-air channel Prime.

At 30 June 2013 there were 633,259 registered users of iSKY, who in June watched approximately 928,884 hours of content. This compares to 231,665 registered users in the prior year who watched an average of 127,000 hours of content per month.

MY SKY HDi

The MY SKY HDi decoder, which was first launched in August 2008, continues to be a highly successful product for SKY. At 30 June 2013, there were 456,419 MY SKY subscribers. This represents 55.5% of SKY's residential subscriber homes. This is an increase of 73,924 from the 382,495 MY SKY subscribers at 30 June 2012. In 2013, 42% of MY SKY installs were to new SKY subscribers compared to 27% last year.

Subscribers have had the choice of paying a one-off installation fee of \$599 (including GST) for a MY SKY HDi decoder or \$99 installation fee with an ongoing monthly fee of \$15 (including GST).

As at 30 June 2013, 6% of new MY SKY subscribers had opted to pay the upfront fee, which is the same percentage as in 2012. MY SKY HDi subscribers also have the option of paying \$10 per month (including GST) to receive SKY's HD channels, or paying \$25 per month (including GST) for a Multiroom decoder including access to SKY's HD channels. At 30 June 2013, 15% of MY SKY HDi subscribers had opted to purchase the SKY HD channels and 29% had installed multi-room. This means 44% of the MY SKY subscribers were receiving HD services, down from 46% last year. The ARPU from MY SKY subscribers to 30 June 2013 was \$86.89 compared to \$84.69 on 30 June 2012, an increase of 2.6%.

Value

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

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

Price per month	2013	2012	% inc
	\$	\$	
Basic	46.92	46.12	1.7
Basic + Movies	67.62	66.82	1.2
Basic + Sport	73.37	72.46	1.3
Basic + Sport + Movies	94.07	93.16	1.0

Subscribers can alter the packages to which they subscribe, 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	2013	2012
Basic + Sport + Movies	31%	32%
Basic + Sport	41%	40%
Basic + Movies	8%	7%
Other	20%	21%

The percentage of subscribers to SKY's premium package of "Basic + Sport + Movies" has dropped by 1% this year while penetration of the "Basic + Movies" package has increased by 1%. A total of 560,303 subscribers were subscribing to the SKY Sports tier at 30 June, compared to 558,466 last year.

BUSINESS OVERVIEW (CONTINUED)

MY SKY tier penetration	2013	2012
Basic + Sport + Movies	35%	38%
Basic + Sport	40%	39%
Basic + Movies	9%	8%
Other	16%	15%

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

Digital tier penetration	2013	2012
Basic + Sport + Movies	25%	25%
Basic + Sport	41%	41%
Basic + Movies	8%	7%
Other	26%	27%

Activations

The level of installation activity is determined by a combination of the level of churn, net gain in new subscribers, and the number of subscribers transferring due to a change of address. The total number of customer activations in 2013 was 228,773 compared to 236,882 in 2012.

There are around 1.3 million homes in New Zealand that have been installed with a SKY satellite dish, which represents approximately 80% of New Zealand homes. The benefit of this is that around 75% of SKY's activations were "decoder" only installs in 2013, (87% in 2012) which are significantly cheaper than the cost of a full install that includes a dish, telephone jack, internal wiring and labour costs.

SKY is continuing to market its Multiroom service to subscribers, which enables subscribers to receive access to SKY services from a second decoder in their home for \$25 per month (incl. GST). There has been a 12.0% growth in the number of Multiroom outlets is as follows:

	2013	2012
Satellite homes	34,010	50,162
MY SKY homes	158,576	121,739
Total Multiroom	192,586	171,901

Installation costs

The majority of SKY's capital expenditure reflects the cost of installing new subscribers. The success of MY SKY HDi has meant that SKY no longer has to acquire standard digital decoders as these decoders are recycled from existing subscribers migrating to the new MY SKY HDi decoder.

In 2013, the average cost of installing new subscribers (material/labour) was \$334 compared to an average of \$352 in the previous year. A "decoder only" install costs \$57. The average MY SKY HDi decoder cost in 2013 was \$320 compared to \$345 in 2012. This reduction is due to a reduction in the USD cost of decoders.

Satellite

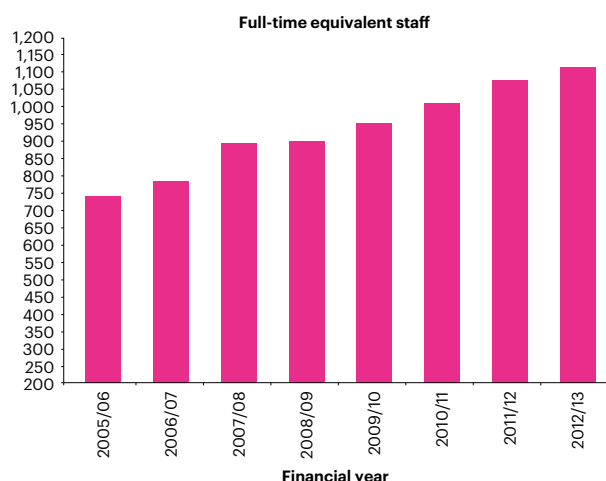
SKY is currently utilising seven transponders on the Optus D1 satellite. The satellite is located at 160° E, which is where the satellite dishes installed by SKY are positioned.

Optus launched the D2 satellite at the 152° E position in October 2007 and the D3 satellite was launched in August 2009 at the 156° E position. Both of these satellites have transponders capable of delivering direct to home (DTH) satellite services to New Zealand. SKY has agreed on a restoration plan with Optus that should 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 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 included on the Optus D3 satellite.

Employees

SKY has increased the number of full-time equivalent employees by 2% to 1,118 in the current year. SKY also employs around 300 contractors in a range of specialist areas. Fifty-three employees have been with the company for more than 20 years. Of SKY's permanent staff, 52% have been with the company longer than five years. SKY has a culturally diverse work force and 47% of its employees are women.



Fatso

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

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

At 30 June 2013, there were 20,541 Fatso subscribers, an increase of 15.7% from 17,756 at 30 June 2012.

Wholesale partnerships

SKY has wholesale agreements with Telecom, Vodafone and Slingshot. During the year Vodafone acquired the New Zealand business of TelstraClear. SKY continues to wholesale pay television services to TelstraClear customers.

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

Prime

During the year SKY invested in new content for Prime, and broadcast delayed coverage of major sporting events on this channel including 23 hours per day coverage of the Olympics.

Prime's share of the television audience (all 5+) has increased from an average yearly audience of 5.8% for the year ended 30 June 2012 to 5.9% for the year ended 30 June 2013. There has been a 13.3% increase in Prime's advertising revenue from \$23.3 million in 2012 to \$26.4 million in 2013. The total TV advertising market increased by 1.1% for the year to 30 June 2013.

Outside Broadcasting (NZ) Limited

In July 2010 the Group, through its subsidiary Outside Broadcasting Limited (OSB), acquired certain assets and liabilities of On Site Broadcasting (NZ) Limited (On Site) from the Australian media company Prime Media Group for a cost of \$13.5 million. On Site had been providing SKY with the broadcasting vans, equipment and personnel required to produce sporting events since 2002. SKY also entered into an agreement with Prime to pursue third party broadcast contracts and shared these earnings on a 50/50 basis. This agreement expired on 30 June 2013 and SKY will retain 100% of any future third party business. OSB has four high definition and three standard definition broadcasting vans, associated equipment and employs 26 staff.

Igloo Limited (IGLOO)

IGLOO was established in November 2011 with SKY and Television New Zealand Limited (TVNZ) as the shareholders. SKY invested a further \$5.75 million of equity into IGLOO on 30 June 2013 and now owns 66% of IGLOO (June 2012: 51%).

IGLOO offers subscribers a low-cost pay television service on a pre-pay basis via a set top box that will be purchased by the subscriber. IGLOO broadcasts 11 linear channels over a digital terrestrial network and the set top box receives the Freeview free-to-air digital channels. IGLOO also offers live sport on a pay-per-view basis and the set top box is internet enabled so that subscribers can purchase Video on Demand content. Other features of the set top box include "live pause" capability.

IGLOO had planned to launch in June 2012 but due to stability issues with the set top box the launch took place in December 2012.

Charitable contributions

SKY supports various charitable organisations including The Starship Foundation, Ronald McDonald House Charitable Trust, and Kidz First Hospital, and offers free advertising air time to other charities. The total value of subscriptions and free advertising is approximately \$1,492,000. In addition, SKY committed \$1 million to the Christchurch Earthquake Appeal Trust over five years.

COMMUNITY AND SPONSORSHIP

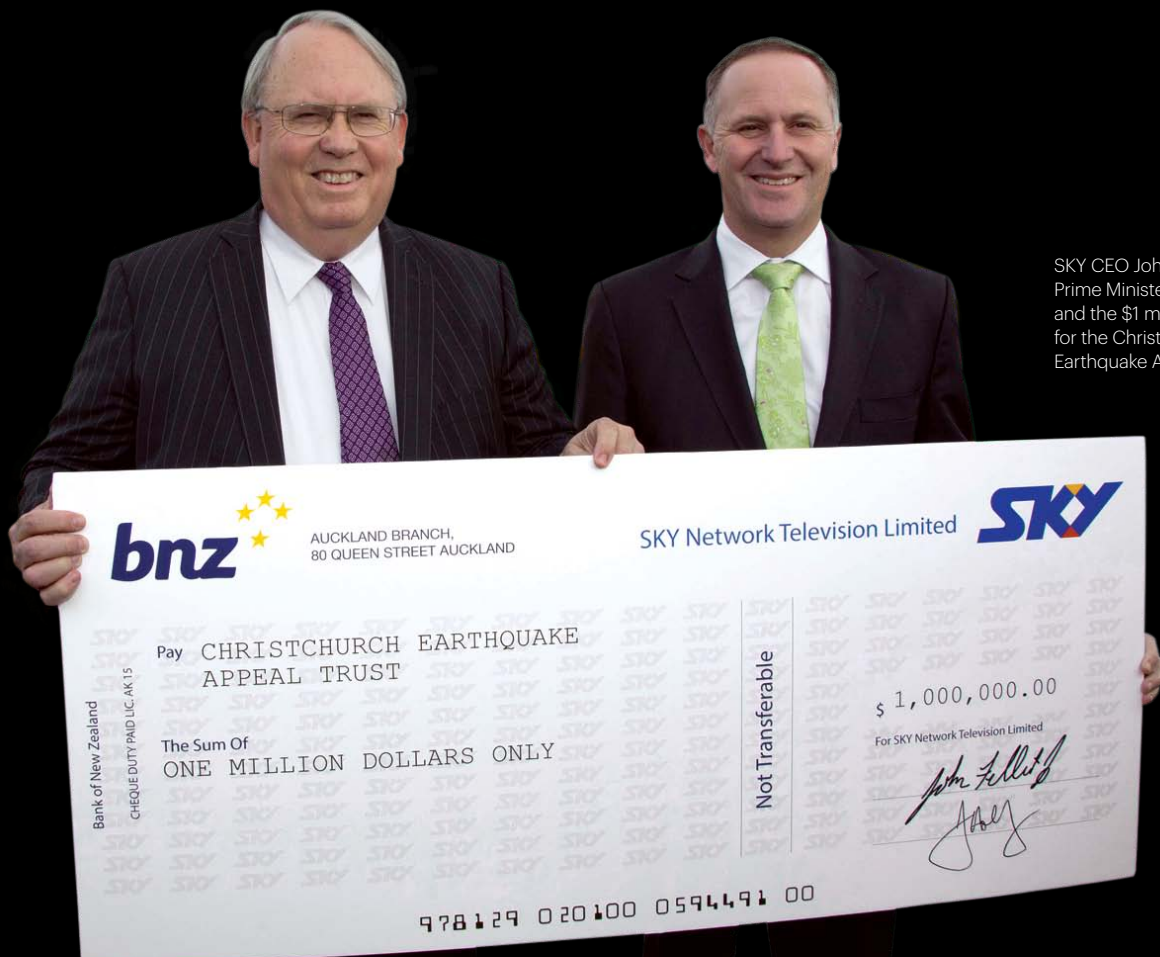
Christchurch Earthquake Appeal Trust

This year SKY committed \$1 million to the Christchurch Earthquake Appeal Trust over five years.

The devastating earthquake in 2011 left so many people and resources in need. Our donation will be put towards sport and recreation projects as these are fundamental to the health and wellbeing of local communities.

SKY's first \$200,000 donation was for the repair of fields at Garrick Park for the Cashmere Technical Football Club. The ground is also used for cricket during the summer months, and this funding addresses the severe drainage issues and has allowed the field to be used year round.

SKY has close ties with Christchurch; not only are many SKY customers from the region, but the city is the South Island base for SKY and its production business OSB (Outside Broadcasting).



SKY CEO John Fellet with Prime Minister John Key and the \$1 million cheque for the Christchurch Earthquake Appeal Trust.

“I STRUGGLED TO GET FROM RACE TO RACE ON THE OTHER SIDE OF THE WORLD. FINANCIAL SUPPORT IS NEAR IMPOSSIBLE UNTIL YOU ARE AT THE TOP OF YOUR GAME AND WINNING ON THE WORLD STAGE. THIS CONCEPT BRIDGES A GAP AND PROVIDES YOU WITH AN INSPIRING JOURNEY TO FOLLOW.”

– HAMISH CARTER

Supporting Talent Programme

The SportConnect ‘Supporting Talent Programme’ was created by Olympic Gold Medal winner Hamish Carter. Together with his wife Marisa, they manage SportConnect to financially support up-and-coming athletes.

SKY is passionate about sport and we screen plenty of it. It’s an honour to share the journey with these young stars by helping fund their adventure and have the Carters on hand to provide mentoring.

Right now there are 14 athletes in the SportConnect programme. Lisa Carrington, Ryan Sissons and Sophie Pascoe are just a few SportConnect names. They’ve achieved some incredible results, as most Kiwis will know. Let’s see what next year brings!

“I struggled to get from race to race on the other side of the world. Financial support is near impossible until you are at the top of your game and winning on the world stage. This concept bridges a gap and provides you with an inspiring journey to follow,” says Hamish Carter.

Starship Foundation

Starship’s patients are on a journey. More often than not, a really tough journey. SKY has been a supporter of the Starship Foundation for more than a decade. Why? Because while our nation’s children are fighting their battles, we at SKY want to do our bit to make that journey just a little bit better.

SKY supports the patients of Starship in many ways, for example providing TV for the children, to entertain them and take their minds off things. We hold national movie premieres in the hospital atrium and bring delightful cartoon characters to Starship events. We’ve also created the ‘Teen Lounge’, a place for older kids to enjoy some time out, and helped fund two adolescent rooms in Starship’s newly rebuilt Neuroservices and Medical Specialties wards.

We also pitch in by raising much-needed money, whether through donating auction items or bringing our SKY customers on board with promotions to enjoy some of our greatest channels at minimal cost and giving that money to Starship.

SKY and all our staff and customers are proud to be right behind the Starship Foundation.



**Starship Foundation
Sponsor**



Olympic Gold Medal winner Hamish Carter
with his wife Marisa



THE PRODUCTION REPORT

FINANCIAL OVERVIEW

SUMMARY

The net profit after tax attributable to equity holders of SKY has increased to \$137.2 million for the year ended 30 June 2013, a 10.9% increase on the previous year's net profit after tax of \$123.7 million.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 5.1% to \$353.1 million.

The results are summarised as follows:

For the years ended 30 June

IN NZD MILLIONS	2013	2012	% inc/(dec)
Financial performance data			
Total revenue	885.0	843.1	5.0
Total operating expenses	531.9	507.1	4.9
EBITDA	353.1	336.0	5.1
Less			
Depreciation and amortisation	134.3	134.1	0.1
Net interest expense and financing charges	29.1	29.4	(1.0)
Unrealised losses/(gains) on currency and other	0.7	0.9	(22.2)
Net profit before income tax	189.0	171.6	10.1

A more detailed commentary on these results is provided overleaf.

FINANCIAL OVERVIEW (CONTINUED)

REVENUE ANALYSIS

SKY's total revenue increased by 5.0% to \$885.0 million, as follows:

For the years ended 30 June

IN NZ MILLIONS	2013	2012	% inc/(dec)
Residential	733.0	688.6	6.4
Commercial	42.8	41.4	3.4
SKYWATCH	12.5	13.2	(5.3)
Total subscription revenue	788.3	743.2	6.1
Advertising	68.0	67.2	1.2
Installation, programme sales and other	28.7	32.7	(12.2)
Total other revenue	96.7	99.9	(3.2)
Total revenue	885.0	843.1	5.0

Residential subscription revenue increased 6.4% to \$733.0 million reflecting a 0.4% increase in subscribers and a 5.4% increase in average revenue per subscriber (ARPU). ARPU is a measure of the average revenue that SKY earns from each subscriber each month.

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

IN NZD	2013	2012	% inc/(dec)
DBS excluding wholesale	62.53	62.65	(0.2)
Wholesale	67.08	64.66	3.7
MY SKY	86.89	84.69	2.6
Total DBS and MY SKY including wholesale	75.83	71.93	5.4

Commercial revenue is the revenue earned from SKY installations at hotels, motels, restaurants and bars throughout New Zealand. This revenue increased 3.4% to \$42.8 million in 2013, reflecting a 7.1% decrease in commercial subscribers offset by an increase in the purchase of additional services.

SKYWATCH is SKY's monthly programme guide that is sold for \$2.66 per month (incl. GST). Revenue from the guide decreased 5.3% to \$12.5 million. This can be attributed to a decrease in paying customers. There were 381,378 subscribers to SKYWATCH at 30 June 2013, down from 420,405 in the previous year.

Advertising sales revenue increased 1.2% to \$68.0 million in 2013. Pay television advertising revenues decreased from \$43.9 million in 2012 to \$41.6 million in 2013, a decrease of \$2.3 million (5.2%). This is due to the high additional advertising revenue from the Rugby World Cup in the prior year.

There was an increase in Prime revenues from \$23.3 million in 2012 to \$26.4 million in 2013, partly due to additional revenue from the Olympics.

Installation, programme sales and other revenues decreased by 12.2% to \$28.7 million in 2013. There has been a \$4.0 million decline in installation revenues due to promotion initiatives offering free installation during a large part of the current financial year.

EXPENSE ANALYSIS

A further breakdown of SKY's operating expenses for 2013 and 2012 is provided below:

IN NZD MILLIONS	2013	2013 % of revenue	2012	2012 % of revenue	% inc/(dec)
Programming	289.3	32.7	273.7	32.5	5.7
Subscriber management	62.7	7.1	64.6	7.7	(2.9)
Broadcasting and infrastructure	88.3	10.0	84.5	10.0	4.5
Sales and marketing	38.8	4.4	39.4	4.7	(1.5)
Advertising	20.8	2.4	19.9	2.3	4.5
Other administrative	31.9	3.6	25.0	3.0	27.6
Depreciation and amortisation	134.3	15.2	134.1	15.9	0.1
Total operating expenses	666.1	75.4	641.2	76.1	3.9

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

IN NZD MILLIONS	2013	2012	% inc/(dec)
Programme rights	229.2	216.1	6.1
Programme operations	60.1	57.6	4.3
Total	289.3	273.7	5.7

SKY's programming expenses have increased slightly to 32.7% of revenue in 2013, from 32.5% in 2012. The 2013 programming costs include the rights and production costs of the London Olympics.

A significant proportion of SKY's programme rights costs are in Australian dollars (AUD) and United States dollars (USD). This means the New Zealand dollar cost included in SKY's accounts is affected by the strength of the NZ dollar (NZD) during a particular year and by SKY's foreign exchange hedging policy.

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

In 2013, SKY made USD and AUD operating expense payments at an average exchange rate of 72.6 and 78.6 cents respectively. Based on the 2013 results, a one cent movement in the USD and AUD rates against the NZD rate would have affected operating costs by around NZD 1.4 million and 0.6 million respectively.

During 2013, SKY's total rights cost of NZD 229.2 million included rights denominated in foreign currencies. During the year, SKY paid USD 56.5 million and AUD 40.3 million for programme rights at an average hedge rate of 72.6 cents for the USD and 78.6 cents for the AUD, giving a total cost of NZD \$129.2 million. If these costs had been converted at the average spot rate, total foreign currency programme costs would have been approximately NZD 119.4 million.

Programme rights costs increased by 6.1% in 2013, primarily due to the additional costs of the Olympics in 2013.

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

FINANCIAL OVERVIEW (CONTINUED)

The programme rights and operations costs for channels programmed and built by SKY, such as the BOX, Vibe and Prime, are also fixed costs. 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 2013, 58% of SKY's total programming costs of \$289.3 million could be regarded as fixed costs, compared to 55% of the \$273.7 million of programming costs in 2012.

Programme operations costs increased by \$2.5 million to \$60.1 million. This was principally due to additional costs for producing the Summer Olympics in July 2012.

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 11 provincial offices.

In 2013, subscriber management costs decreased \$1.9 million (2.9%) to \$62.7 million. This was mainly the result of a decrease in credit control costs and a reduction in service call costs.

Sales and marketing costs include the costs of marketing SKY to existing and new subscribers, subscriber acquisition costs including costs of advertising campaigns, sales commissions paid to direct sales and tele-sales agents, the costs of producing on-air promotions for SKY and Prime, marketing costs for Prime and the costs of producing SKYWATCH magazine. Sales and marketing costs decreased by 1.5% to \$38.8 million in 2013. IGLOO's sales and marketing costs decreased from \$2.2 million in 2012 to \$1.3 million in 2013.

Advertising costs include the costs of operating SKY's advertising sales department which sells advertising and sponsorship on SKY and Prime channels and includes the 20% sales commission that is paid to advertising agencies. Advertising sales costs increased 4.5% to \$20.8 million, reflecting the higher advertising revenues in 2013.

Broadcasting and infrastructure costs consist of transmission and linking costs for transmitting SKY and Prime's television signals from its studios in Auckland to other locations in New Zealand and the costs of operating SKY's television stations at Mt Wellington and Albany. The costs of leasing seven transponders on the Optus D1 satellite are included, as is the cost of high definition television broadcasting.

Broadcasting and infrastructure costs increased by \$3.8 million (4.5%) to \$88.3 million. This was mainly due to an increase in IGLOO's transmission costs of \$2.6 million.

Other administrative costs include the overhead costs relating to corporate management and the finance department as well as the cost of sales of the IGLOO set top boxes. These costs have increased by 276% to \$31.9 million from \$25.0 million in the prior year. This \$6.9 million increase is due to the transfer of staff to a new centralised project management office and the cost of sales and impairment of set top boxes costs for IGLOO which commenced operations only in December 2012.

Depreciation and amortisation costs include depreciation charges for subscriber equipment including aerials, satellite dishes and decoders owned by SKY, and fixed assets such as television station facilities. Depreciation and amortisation costs for the current year are consistent with prior-year costs.

Interest and financing costs have decreased slightly from \$29.3 million to \$29.2 million despite an additional \$14.0 million of bank debt as at 30 June. SKY drew an additional \$105 million of debt in December 2012 to pay a special dividend of 32 cents per share. SKY's weighted average interest cost was 5.7% compared to 5.8% in 2012, as follows.

	2013	2012
Bank loans	6.6%	6.7%
Bonds	4.5%	4.5%
Finance lease	6.9%	6.9%
Combined weighted average	5.7%	5.8%

Taxation expense has increased by \$7.9 million (16.2%) to \$56.8 million reflecting the increase in pre-tax profit.

Capital expenditure

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

IN NZD MILLIONS	2013	2012	2011	2010	2009
Subscriber equipment	22.9	57.4	44.6	40.5	63.2
Installation costs	40.2	48.9	50.9	62.0	46.5
Building	1.4	0.9	3.7	4.3	0.9
HD Broadcasting Truck	–	2.6	7.5	14.7	8.6
Other	17.9	27.1	28.3	17.5	13.0
Capital expenditure	82.4	136.9	135.0	139.0	132.2
Acquisition of OSB assets	–	–	34.7	–	–
Total capital expenditure	82.4	136.9	169.7	139.0	132.2

Capital expenditure decreased by \$54.5 million in 2013 to \$82.4 million.

Subscriber equipment expenditure decreased by \$34.5 million, mainly due to the increase in MY SKY decoder inventory in the prior year. This was to ensure there were sufficient MY SKY decoders on hand for the expected demand due to the Olympics. In the current year, 68,000 decoders were purchased compared to 155,000 in the prior year. MY SKY inventory has reduced from 43,724 decoders at 30 June 2012 to 24,888 at 30 June 2013.

Installation costs were down by \$8.7 million due to there being fewer installations in the current year.

Other capital expenditure totalling \$17.9 million compared to \$27.1 million in the prior year which included \$12.3 million of infrastructure and technology development for Igloo. Capital expenditure for Igloo in the current year was only \$2.6 million.

Commerce Commission

The Commerce Commission investigation into SKY's agreements with Retail Service Providers (RSPs) is yet to be resolved. The investigation commenced in May 2012. SKY is continuing to cooperate with the Commission to clarify the Commission's understanding of SKY's agreements and to answer questions as they arise.

BOARD OF DIRECTORS

**PETER
MACCOURT**
CHAIRMAN



Mr Maccourt was appointed chairman of the board of SKY in August 2002. He is a director of Virtus Health Limited and a former director and chief operating officer of News Limited. Previously, Mr Maccourt has served as a director of Premier Media, Foxtel, Independent Newspapers Limited and a number of subsidiaries and associated companies of The News Corporation Limited. He holds a degree in commerce from the University of New South Wales and is a member of the Australian Institute of Chartered Accountants and the Australian Institute of Company Directors.

**ROBERT
BRYDEN**
DEPUTY
CHAIRMAN



Mr Bryden was appointed a director of SKY in 1990 and deputy chairman in February 2001. He was the managing director of Todd Capital Limited, retiring from this position in September 2011.

**JOHN
FELLET**
DIRECTOR AND
CHIEF EXECUTIVE
OFFICER



Mr Fellet joined SKY as chief operating officer in 1991. He was appointed chief executive officer in January 2001 and a director of SKY in April 2001. Mr Fellet holds a BA degree in accounting from Arizona State University, United States, and has over 36 years' experience in the pay television industry, including ten years' experience with Telecommunications Inc. in the United States.

**JOHN
HART**
DIRECTOR



Mr Hart was appointed a director of SKY in October 1997. He had a distinguished career in sports administration including being All Blacks coach between 1996 and 1999. Mr Hart was employed by Fletcher Challenge Limited from 1966 to 1995 in a variety of positions including, for the last ten years, the role of Employee Relations Director. He currently manages his own consultancy business. Mr Hart's other directorships include Bayley Corporation Limited, Global Rugby Enterprises, the NZPGA and NZPGA PRO-AM Championship Limited. In addition, he has served in a number of government-appointed roles, including chairing the NZ2011 office charged with leveraging the Rugby World Cup in 2011. He is currently chair of the nominations committee for the board of Sport New Zealand. He was made an Officer of the New Zealand Order of Merit (ONZM) in 1997 for his services to rugby and sport.

**HUMPHRY
ROLLESTON**
DIRECTOR



Mr Rolleston was appointed a director of SKY in September 2005. He was an independent director of Independent Newspapers Limited (INL) from 1999 until INL's merger with SKY in July 2005. He is a director of Asset Management Limited, Mercer Group Limited, Matrix Security Group Limited, Infratil Limited, Murray & Company Limited and Property for Industry Limited.

**JOHN
WALLER**
DIRECTOR



Mr Waller was appointed a director of SKY and member of the audit and risk committee in April 2009. He was a partner at PricewaterhouseCoopers for over 20 years, was a member of their board and led their Advisory practice. He is the chairman of BNZ and the Eden Park Trust Board, and a director of Fonterra Co-operative Group Limited, National Australia Bank Limited, Alliance Group Limited, Donaghys Limited, Property for Industry Limited and various other companies.



DAVID AH TONG

AS THE INSTALLATION TECHNICIAN

Fanatical about MTV

Every day I'm out there, ensuring SKY customers have the technology they need to get the experience they want. But by night, it's my time. MTV, surround sound, loud and pumping!

COME WITH US



BEHIND THE SCENES

2013 FINANCIALS

34	FINANCIAL TRENDS STATEMENT
37	DIRECTORS' RESPONSIBILITY STATEMENT
38	INCOME STATEMENT
39	STATEMENT OF COMPREHENSIVE INCOME
40	BALANCE SHEET
41	STATEMENT OF CHANGES IN EQUITY
42	STATEMENT OF CASH FLOWS
43	NOTES TO THE FINANCIAL STATEMENTS
83	INDEPENDENT AUDITORS' REPORT

FINANCIAL TRENDS STATEMENT

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

INCOME STATEMENT – FIVE-YEAR SUMMARY

IN NZD 000	2013	2012	2011	2010	2009
For the year ended 30 June					
Total revenue	885,024	843,074	796,948	741,836	691,959
Total operating expenses ⁽¹⁾	531,884	507,052	475,273	454,336	430,998
EBITDA ⁽²⁾	353,140	336,022	321,675	287,500	260,961
Less/(plus)					
Depreciation and amortisation	134,260	134,119	124,954	112,506	96,076
Net interest expense and financing charges	29,193	29,346	25,330	30,974	36,559
Unrealised losses/(gains) on currency and other	692	923	(641)	(2,498)	2,524
Net profit before income tax	188,995	171,634	172,032	146,518	125,802

BALANCE SHEET – FIVE-YEAR SUMMARY

IN NZD 000	2013	2012	2011	2010	2009
As at 30 June					
Property, plant, equipment and non-current intangibles	338,002	388,646	391,268	342,124	315,665
Goodwill	1,424,494	1,424,494	1,424,494	1,423,427	1,423,427
Total assets	1,900,293	1,962,467	1,940,560	1,909,161	1,872,797
Total debt and lease obligations	483,786	472,469	418,303	472,117	500,550
Working capital ⁽³⁾	(39,790)	(20,717)	(26,391)	3,550	(7,496)
Total liabilities	718,396	708,603	643,016	658,214	666,272
Total equity	1,181,897	1,253,864	1,297,544	1,250,947	1,206,525

(1) Exclusive of depreciation and amortisation.

(2) Net profit before income tax, interest expense, depreciation and amortisation, unrealised gains and losses on currency and interest rate swaps.

(3) Working capital excludes current borrowings, bonds and derivative financial instruments.

OTHER FINANCIAL DATA

IN NZD 000	2013	2012	2011	2010	2009
For the year ended 30 June					
Capital expenditure (accrual basis) ⁽¹⁾	83,628	132,321	139,554	138,994	132,178
Free cash inflows/(outflows) ⁽²⁾	208,223	136,067	122,681	98,480	58,049

(1) This does not include assets purchased as part of the acquisition of OSB in July 2010, and The Arts Channel in 2009.

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

HISTORY OF DIVIDEND PAYMENTS

(BY CALENDAR YEAR IN CENTS PER SHARE)	2013	2012	2011	2010	2009
Interim dividend (paid in March)	12.0	11.0	8.0	7.0	7.0
Final dividend (paid in September)	–	11.0	10.5	7.0	7.0
Total ordinary dividend	12.0	22.0	18.5	14.0	14.0
Add special dividend	–	32.0	25.0	–	–
Total dividend paid	12.0	54.0	43.5	14.0	14.0

FINANCIAL TRENDS STATEMENT (CONTINUED)

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

TOTAL DBS AND OTHER SUBSCRIBERS

As at 30 June	2013	2012	2011	2010	2009
Subscribers – UHF:					
Residential	–	–	–	–	22,772
Commercial	–	–	–	–	400
Total UHF	–	–	–	–	23,172
Subscribers – DBS (Satellite):					
Residential	690,990	690,267	675,221	659,233	623,564
Residential – wholesale ⁽¹⁾	131,555	129,323	124,712	118,403	111,260
Commercial	8,494	9,140	8,684	8,557	8,167
Total DBS	831,039	828,730	808,617	786,193	742,991
Subscribers – Other:⁽²⁾	24,859	18,201	20,804	16,204	12,739
Total subscribers	855,898	846,931	829,421	802,397	778,902
MY SKY subscribers ⁽³⁾	456,419	382,495	279,875	189,975	103,991
Total number of households in New Zealand ⁽⁴⁾	1,678,100	1,659,600	1,640,900	1,622,200	1,603,400
Percentage of households subscribing to the SKY network:					
Total UHF and DBS – residential	49.0%	49.4%	48.7%	47.9%	47.2%
Gross churn rate ⁽⁵⁾	14.4%	14.2%	14.0%	13.9%	14.0%
Average monthly revenue per residential subscriber (NZD):					
UHF	n/a	n/a	n/a	30.82	37.24
DBS excluding wholesale	62.53	62.65	65.19	65.76	66.57
Wholesale	67.08	64.66	61.78	55.51	53.30
MY SKY	86.89	84.69	84.79	84.61	78.02
Total UHF, DBS and MY SKY including wholesale	75.83	71.93	70.45	67.61	64.00
Additional outlets					
Additional outlets (Multiroom):					
UHF	–	–	–	–	12,086
Satellite	192,586	171,901	151,509	127,703	91,888
Total	192,586	171,901	151,509	127,703	103,974

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

(2) Includes subscribers to programmed music and online DVD rentals via SKY's subsidiary companies, SKY DMX Music Limited and Screen Enterprises Limited. Also includes residential subscribers to IGLOO's package launched in December 2012.

(3) Included in total subscribers.

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

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

DIRECTORS' RESPONSIBILITY STATEMENT

The directors of SKY Network Television Limited (the Company) are responsible for ensuring that the financial statements of the Company give a true and fair view of the income statements of the Company and the Group as at 30 June 2013 and their balance sheets and cash flows for the year ended on that date.

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

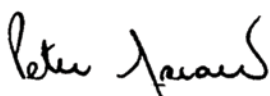
The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

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

The directors have pleasure in presenting the financial statements of the Company and Group for the year ended 30 June 2013.

The board of directors of SKY Network Television Limited authorise these financial statements for issue on 22 August 2013.

For and on behalf of the board of directors



Peter Macourt

Chairman



Robert Bryden

Director

22 August 2013

INCOME STATEMENT

For the year ended 30 June 2013

		GROUP		COMPANY	
IN NZD 000	Notes	2013	2012	2013	2012
Revenue					
Residential satellite subscriptions		726,322	682,348	726,322	682,348
Other subscriptions		61,965	60,811	61,827	60,811
Installation		9,448	13,800	9,427	13,782
Advertising		68,040	67,235	68,040	67,235
Other income		19,249	18,880	9,242	10,975
		885,024	843,074	874,858	835,151
Expenses					
Programme rights		229,206	216,131	228,856	215,820
Programme operations		60,114	57,546	64,790	62,770
Subscriber management		62,719	64,608	59,458	61,473
Sales and marketing		38,754	39,387	36,535	36,706
Advertising		20,842	19,858	20,842	19,858
Broadcasting and infrastructure		88,320	84,529	85,208	83,963
Depreciation and amortisation	6	134,260	134,119	125,586	125,756
Corporate	15/11	31,929	24,993	33,278	26,087
		666,144	641,171	654,553	632,433
Operating profit		218,880	201,903	220,305	202,718
Financial (expense)/income					
Finance income		638	2,082	1,819	3,406
Finance expense		(29,831)	(31,428)	(28,739)	(30,130)
Realised exchange loss		(730)	(1,172)	(722)	(1,163)
Unrealised exchange gain		38	249	83	259
	7	(29,885)	(30,269)	(27,559)	(27,628)
Profit before tax		188,995	171,634	192,746	175,090
Income tax expense	8	56,780	48,847	55,938	50,586
Profit after tax		132,215	122,787	136,808	124,504
Non-controlling interest					
		(4,982)	(883)	-	-
Attributable to equity holders of the Company		137,197	123,670	-	-
Earnings per share					
Basic and diluted earnings per share (cents)	9	35.26	31.78		

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2013

IN NZD 000	Note	GROUP		COMPANY	
		2013	2012	2013	2012
Profit for the year		132,215	122,787	136,808	124,504
Other comprehensive income items that may be reclassified subsequently to profit and loss					
Cash flow hedges, net of tax	23	9,845	2,233	9,700	2,336
Other comprehensive income for the year, net of income tax		9,845	2,233	9,700	2,336
Total comprehensive income for the year		142,060	125,020	146,508	126,840
Attributable to:					
Equity holders of the Company		147,042	125,903	146,508	126,840
Non-controlling interest		(4,982)	(883)	–	–
		142,060	125,020	146,508	126,840

BALANCE SHEET

As at 30 June 2013

		GROUP		COMPANY	
IN NZD 000	Notes	2013	2012	2013	2012
Current assets					
Cash and cash equivalents		20,676	27,903	13,664	14,654
Trade and other receivables	10	72,130	73,572	72,314	74,557
Inventory	11	934	3,062	–	–
Programme rights inventory	12	39,362	42,188	39,362	42,188
Derivative financial instruments	20	2,324	1,013	2,266	1,013
		135,426	147,738	127,606	132,412
Non-current assets					
Property, plant and equipment	13	303,305	364,335	271,901	319,087
Other intangible assets	14	34,697	24,311	26,094	24,220
Shares in subsidiary companies	15	–	–	14,179	14,544
Related party advance	27	–	–	12,964	17,243
Deferred tax asset	17	–	1,159	–	–
Goodwill	16	1,424,494	1,424,494	1,422,465	1,422,465
Derivative financial instruments	20	2,371	430	2,371	430
		1,764,867	1,814,729	1,749,974	1,797,989
Total assets		1,900,293	1,962,467	1,877,580	1,930,401
Current liabilities					
Borrowings	19	3,288	3,078	–	–
Trade and other payables	18	163,512	153,726	160,538	147,245
Income tax payable		9,380	13,716	11,365	15,810
Derivative financial instruments	20	6,821	11,386	6,821	11,134
		183,001	181,906	178,724	174,189
Non-current liabilities					
Borrowings	19	281,484	270,676	270,835	256,740
Bonds	19	199,014	198,715	199,014	198,715
Deferred tax	17	40,122	34,811	36,390	32,901
Derivative financial instruments	20	14,388	22,143	14,388	22,143
Provisions	21	387	352	387	352
		535,395	526,697	521,014	510,851
Total liabilities		718,396	708,603	699,738	685,040
Equity					
Share capital	22	577,403	577,403	577,403	577,403
Hedging reserve	23	(9,960)	(19,805)	(10,002)	(19,702)
Retained earnings	24	607,089	684,084	610,441	687,660
Total equity attributable to equity holders of the Company		1,174,532	1,241,682	1,177,842	1,245,361
Non-controlling interest		7,365	12,182	–	–
Total equity		1,181,897	1,253,864	1,177,842	1,245,361
Total equity and liabilities		1,900,293	1,962,467	1,877,580	1,930,401

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2013

ATTRIBUTABLE TO OWNERS OF THE PARENT							
IN NZD 000	Notes	Share capital	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total equity
GROUP							
Balance at 1 July 2012		577,403	(19,805)	684,084	1,241,682	12,182	1,253,864
Profit/(loss) for the year		–	–	137,197	137,197	(4,982)	132,215
Cash flow hedges, net of tax	23	–	9,845	–	9,845	–	9,845
Total comprehensive income/(loss) for the year		–	9,845	137,197	147,042	(4,982)	142,060
Transactions with owners in their capacity as owners							
Change in non-controlling interest		–	–	(165)	(165)	165	–
Dividend paid	24	–	–	(214,027)	(214,027)	–	(214,027)
Supplementary dividends		–	–	(11,071)	(11,071)	–	(11,071)
Foreign investor tax credits		–	–	11,071	11,071	–	11,071
		–	–	(214,192)	(214,192)	165	(214,027)
Balance at 30 June 2013		577,403	(9,960)	607,089	1,174,532	7,365	1,181,897
Balance at 1 July 2011		577,403	(22,038)	741,364	1,296,729	815	1,297,544
Profit/(loss) for the year		–	–	123,670	123,670	(883)	122,787
Cash flow hedges, net of tax	23	–	2,233	–	2,233	–	2,233
Total comprehensive income/(loss) for the year		–	2,233	123,670	125,903	(883)	125,020
Capital contributed		–	–	–	–	12,250	12,250
Transactions with owners in their capacity as owners							
Dividend paid	24	–	–	(180,950)	(180,950)	–	(180,950)
Supplementary dividends		–	–	(4,499)	(4,499)	–	(4,499)
Foreign investor tax credits		–	–	4,499	4,499	–	4,499
		–	–	(180,950)	(180,950)	–	(180,950)
Balance at 30 June 2012		577,403	(19,805)	684,084	1,241,682	12,182	1,253,864
COMPANY							
Balance at 1 July 2012		577,403	(19,702)	687,660	1,245,361	–	1,245,361
Profit for the year		–	–	136,808	136,808	–	136,808
Cash flow hedges, net of tax	23	–	9,700	–	9,700	–	9,700
Total comprehensive income for the year		–	9,700	136,808	146,508	–	146,508
Transactions with owners in their capacity as owners							
Dividend paid	22	–	–	(214,027)	(214,027)	–	(214,027)
Supplementary dividends		–	–	(11,071)	(11,071)	–	(11,071)
Foreign investor tax credits		–	–	11,071	11,071	–	11,071
		–	–	(214,027)	(214,027)	–	(214,027)
Balance at 30 June 2013		577,403	(10,002)	610,441	1,177,842	–	1,177,842
Balance at 1 July 2011		577,403	(22,038)	744,106	1,299,471	–	1,299,471
Profit for the year		–	–	124,504	124,504	–	124,504
Cash flow hedges, net of tax	23	–	2,336	–	2,336	–	2,336
Total comprehensive income for the year		–	2,336	124,504	126,840	–	126,840
Transactions with owners in their capacity as owners							
Dividend paid	22	–	–	(180,950)	(180,950)	–	(180,950)
Supplementary dividends		–	–	(4,499)	(4,499)	–	(4,499)
Foreign investor tax credits		–	–	4,499	4,499	–	4,499
		–	–	(180,950)	(180,950)	–	(180,950)
Balance at 30 June 2012		577,403	(19,702)	687,660	1,245,361	–	1,245,361

STATEMENT OF CASH FLOWS

For the year ended 30 June 2013

		GROUP		COMPANY	
IN NZD 000	Notes	2013	2012	2013	2012
Cash flows from operating activities					
Profit after tax		132,215	122,787	136,808	124,504
Plus/(less) non-cash items:					
Depreciation and amortisation	6	134,260	134,119	125,586	125,756
Unrealised foreign exchange gain	7	(38)	(249)	(83)	(259)
Bad debts and movement in provision for doubtful debts	6	5,526	5,599	5,521	5,593
Impairment of inventory	11	1,405	403	–	–
Amortisation of bond issue costs	7	299	299	299	299
Movement in deferred tax	8	2,698	(3,808)	(283)	(4,132)
Other non-cash items		861	1,527	525	1,149
Items classified as investing activities:					
Gain on disposal of assets		(16)	(34)	(19)	(34)
Impairment of investment	15	–	–	6,115	2,213
Movement in working capital items:					
(Increase)/decrease in receivables		(5,102)	673	(5,388)	1,640
Increase in payables		8,094	11,776	12,963	7,543
Increase in provision for tax		6,813	10,002	8,988	12,105
Decrease/(increase) in inventory		723	(3,465)	–	–
Decrease/(increase) in programme rights		2,827	(7,538)	2,827	(7,538)
Net cash from operating activities		290,565	272,091	293,859	268,839
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		30	859	30	859
Acquisition of property, plant, equipment and intangibles		(82,372)	(136,883)	(79,027)	(121,107)
Acquisition of business	28	–	–	(5,750)	(12,750)
Net cash used in investing activities		(82,342)	(136,024)	(84,747)	(132,998)
Cash flows from financing activities					
Repayment of borrowings – bank loan	19	(155,000)	(300,000)	(155,000)	(300,000)
Advances received – bank loan	19	169,000	358,000	169,000	358,000
Related party advance		–	–	–	(3,308)
Related party advance repayment		–	–	2,243	2,413
Payment of bank facility fees		(1,247)	(1,500)	(1,247)	(1,500)
Capital introduced by non-controlling interest	28	–	12,250	–	–
Payment of finance lease liabilities		(3,105)	(2,899)	–	–
Dividends paid		(225,098)	(185,449)	(225,098)	(185,449)
Net cash used in financing activities		(215,450)	(119,598)	(210,102)	(129,844)
Net (decrease)/increase in cash and cash equivalents		(7,227)	16,469	(990)	5,997
Cash and cash equivalents at beginning of year		27,903	11,434	14,654	8,657
Cash and cash equivalents at end of year		20,676	27,903	13,664	14,654

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

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 2013 comprise the Company, SKY Network Television Limited and its subsidiaries. The Company financial statements are for SKY Network Television Limited as a separate legal entity.

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

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

On 21 July 2011, SKY established a new company, Igloo Limited (IGLOO). SKY initially contributed \$12,750,000 and had a 51% interest, with TVNZ owning the other 49%, having contributed \$12,250,000. On 28 June 2013, SKY contributed a further \$5,750,000, bringing its interest to 66%, with TVNZ owning the other 34%. IGLOO delivers a low-cost pay television service over the digital terrestrial network which includes 11 pay channels as well as the free-to-air channels. In addition, IGLOO offers pay-per-view sport and movies. IGLOO is a subsidiary of SKY and has been fully consolidated into the Group's results.

These financial statements were authorised for issue by the Board on 22 August 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements are for the year ended 30 June 2013. They have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). Accounting policies applied in these financial statements comply with NZ IFRS and NZ IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (August 2013) as applicable to SKY as a profit-oriented entity. The Group and the Company financial statements are in compliance with International Financial Reporting Standards (IFRS).

The preparation of financial statements in accordance with NZ IFRS requires management to make 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.

Changes in accounting policy and disclosures

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

The following are the new standards and amendments to standards which are effective for the first time for the financial year beginning 1 July 2012 and which are relevant to the Group. These amendments do not result in material accounting or disclosure changes for the Group other than the presentation format in the Statement of Cash Flows.

NZ IAS 1: Amendments to NZ IAS 1: Presentation of Items of Other Comprehensive Income (Effective date: periods beginning on or after 1 July 2012).

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

NZ IAS 7: Statement of Cash Flow: The presentation has been changed from the direct to the indirect format.

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

Annual improvements to NZ IFRS 2009-2011 (Effective date: periods beginning on or after 1 January 2013).

NZ IFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities (Effective date: periods beginning on or after 1 January 2013).

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

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

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

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

NZ IAS 19: Employee Benefits (Effective date: periods beginning on or after 1 January 2013).

NZ IAS 27: Separate Financial Statements (Effective date: periods beginning on or after 1 January 2013).

NZ IAS 32: Offsetting Financial Assets and Financial Liabilities (Effective date: periods beginning on or after 1 January 2014).

NZ IFRS 9: Financial Instruments (Effective date: periods beginning on or after 1 January 2015).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The directors anticipate that the adoption of these standards and interpretations in future periods, other than NZ IFRS 9, will have no material impact on the financial statements of the Company or the Group other than disclosures. The Group has yet to assess the full impact of NZ IFRS 9.

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

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

Basis of consolidation

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

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

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 are unrealised gains unless the transaction provides evidence of an impairment of the asset transferred.

Transactions and non-controlling interests

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

Functional and presentation currency

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

Foreign currency transactions

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

Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. The cost of additions to plant and other assets constructed by the Group consist of all appropriate costs of development, construction and installation, comprising material, labour, direct overhead and transport costs. For qualifying assets, directly attributable interest costs incurred during the period required to complete and prepare the asset for its intended use are capitalised as part of the total cost. All other costs are recognised in the income statement as an expense as incurred.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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:

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

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

Goodwill

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

Other intangible assets

Broadcasting rights

Broadcasting rights consisting of UHF spectrum 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 at cost and amortised on a straight-line basis over the period that any new rights are acquired. If a contract is not expected to be renewed, the costs are expensed.

Software

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

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

Programme rights inventory

Programme rights are recognised at cost as an asset in the balance sheet, provided the programme is available and the rights period has commenced at the balance date. Long-term sports rights are executory contracts as the obligation to pay for the rights does not arise until the event has been delivered. Most sports rights contracts are, however, payable in advance and as such, are recognised only to the extent of the unamortised payment amount. Rights are amortised over the period they relate to on a proportionate basis depending on the type of programme right and the expected screening dates, generally not exceeding 12 months. Any rights not expected to be utilised are written off during the period.

Inventory

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost basis, and includes expenditure incurred in acquiring the inventories, and other costs incurred in bringing them to their existing location and condition. Costs also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchase of inventories.

Net realisable value is the estimated selling price in the ordinary course of business less selling expenses. Provisions are made for obsolete, unsaleable and unusable inventory.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Leases – finance leases

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

Leases – operating leases

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

Financial assets

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Impairment

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

Trade and other receivables

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

Cash and cash equivalents

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

Short-term investments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Borrowings

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

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

Bonds

Bonds are recognised initially at face value less costs of issue. Costs of issue are amortised over the period of the bonds. Subsequent to initial recognition, bonds are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the bonds, using the effective interest method. Bonds are classified in the balance sheet as non-current liabilities unless settlement of the liability is due within 12 months after the balance date.

Trade and other payables

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

Derivative financial instruments and hedge accounting

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

Derivatives consist mainly of currency forwards and interest rate swaps.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are re-measured 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 de-designation, i.e. the period that the hedged item will affect the income statement, amounts accumulated in equity are either released to the income statement or used to adjust the carrying value of assets purchased (basis price adjustments). For example, when hedging forecast purchases of programme rights in foreign currency, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the programme rights. The deferred amounts are ultimately recognised in programme rights' expenses in the income statement. Any ineffective component of the fair value changes on the hedging instrument is recorded directly in the income statement. The fair value of foreign currency forward contracts is determined by using forward exchange market rates at the balance date.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Fair value hedges

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

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

Fair value estimation

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

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

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

Employee benefits

Wages and salaries and annual leave

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

Long service leave

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

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.

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 retailer 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Borrowing costs

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

Taxation

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

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

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

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

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

Goods and services tax (GST)

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

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to SKY's group of executive directors who are the chief operating decision-makers. SKY's group of executive directors is responsible for allocating resources and assessing performance of the operating segments. SKY operates in a single business segment; the provision of multi-channel television services in New Zealand.

3. FINANCIAL RISK MANAGEMENT

Financial risk management objectives

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

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

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

The Corporate Treasury function reports monthly to the board of directors. The board has an audit and risk committee which is responsible for developing and monitoring the Group's risk management policies.

Market risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

3. FINANCIAL RISK MANAGEMENT CONTINUED

a) Foreign exchange risk

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

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

		Period	Minimum hedging	Maximum hedging
Capex	Capex order greater than NZD \$250,000	Time of issuing order	100%	100%
Opex	Fixed commitments	Up to 3 years	100%	100%
		> 3 years	0%	30%
Opex	Variable commitments	0-12 months	85%	95%
		13-36 months	0%	70%
		> 36 months	0%	30%

A detailed summary of the Group's currency risks and a sensitivity analysis are given in note 20.

b) Cash flow and fair value interest rate risk

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

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

A detailed summary of the Group's interest rate risks and a sensitivity analysis are given in note 20.

c) Price risk

The Group does not have any price risk exposure.

Credit risk

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

The Group has no significant concentrations of credit risk.

Credit risk with respect to trade receivables is limited due to the large number of subscribers included in the Group's subscriber base. In addition, receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. The maximum exposure is the carrying amount as disclosed in note 10.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

3. FINANCIAL RISK MANAGEMENT CONTINUED

Liquidity risk

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

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

The Group has an undrawn facility balance of \$128,000,000 (June 2012: \$142,000,000) that can be drawn down to meet short-term working capital requirements (refer note 19). Contractual maturities of the Group's financial liabilities are shown below.

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

The information shown below relates to the Group only. Company information is not shown separately. The only material difference between the Company and the Group is the lease liabilities shown as a separate line item on the table below. These lease liabilities relate to OSB and are separately disclosed in note 19.

IN NZD 000	Notes	Carrying amount	Contractual cash flows	Less than one year	1-2 years	2-5 years	> 5 years
At 30 June 2013							
Non-derivative financial liabilities							
Secured bank loans	19	270,835	(333,666)	(12,213)	(12,213)	(36,638)	(272,602)
Lease liabilities	19	13,937	(15,421)	(4,170)	(4,170)	(7,081)	-
Bonds	19	199,014	(221,045)	(6,380)	(6,380)	(208,285)	-
Trade and other payables	18	101,660	(101,660)	(101,660)	-	-	-
Derivative financial liabilities							
Forward exchange contracts used for hedging – net outflow/inflow ⁽¹⁾	20	6,589	(5,771)	(4,198)	(1,027)	(546)	-
Interest rate swaps ⁽¹⁾	20	14,620	(20,176)	(6,386)	(6,237)	(7,448)	(105)
		606,655	(697,739)	(135,007)	(30,027)	(259,998)	(272,707)
At 30 June 2012							
Non-derivative financial liabilities							
Secured bank loans	19	256,740	(316,330)	(11,558)	(11,558)	(34,674)	(258,540)
Lease liabilities	19	17,014	(19,591)	(4,170)	(4,170)	(11,251)	-
Bonds	19	198,715	(230,930)	(7,200)	(7,200)	(216,530)	-
Trade and other payables	18	93,700	(93,700)	(93,700)	-	-	-
Derivative financial liabilities							
Forward exchange contracts used for hedging – net outflow/inflow	20	9,310	(9,969)	(8,512)	(1,457)	-	-
Interest rate swaps ⁽¹⁾	20	24,219	(31,723)	(7,652)	(6,813)	(13,181)	(4,077)
		599,698	(702,243)	(132,792)	(31,198)	(275,636)	(262,617)

Trade and other payables (note 18) includes unearned subscriptions and deferred revenues totalling \$61,852,000 (2012: \$60,026,000) which are not classified as financial instruments. These balances are excluded from the amounts shown above.

(1) The table excludes the contractual cash flows of the interest rate swaps and forward exchange contracts which are included in assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

3. FINANCIAL RISK MANAGEMENT CONTINUED

The table below analyses the Group's foreign exchange derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Inflows have been calculated using balance date spot rates.

IN NZD 000	Exchange rate	Contractual cash flows foreign exchange amount	Contractual cash flows	Less than one year	1-2 years	3-5 years
At 30 June 2013						
Forward foreign exchange contracts						
Outflow (at FX hedge rate)						
USD			(84,296)	(77,159)	(7,137)	-
AUD			(124,583)	(95,174)	(19,403)	(10,006)
YEN			(1,227)	(1,227)	-	-
Inflow (at year-end market rate)						
USD	0.7808	65,688	84,128	76,945	7,183	-
AUD	0.8436	100,328	118,928	91,138	18,330	9,460
YEN	77.1665	98,658	1,279	1,279	-	-
			(5,771)	(4,198)	(1,027)	(546)
At 30 June 2012						
Forward foreign exchange contracts						
Outflow (at FX hedge rate)						
USD			(132,335)	(97,351)	(34,984)	-
AUD			(74,372)	(74,372)	-	-
CAD			(1,678)	(1,678)	-	-
Inflow (at year-end market rate)						
USD	0.7975	97,756	122,578	89,051	33,527	-
AUD	0.7841	58,203	74,229	74,229	-	-
CAD	0.8174	1,315	1,609	1,609	-	-
			(9,969)	(8,512)	(1,457)	-

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's overall strategy for capital risk management remains unchanged from 2012.

The capital structure of the Group consists of debt which includes the borrowings disclosed in note 19, cash and cash equivalents and equity attributable to equity holders of the Parent comprising share capital, hedging reserve and retained earnings as disclosed in notes 22, 23 and 24 respectively.

The board reviews the Company's capital structure on a regular basis. The Company has a facility agreement in place with a syndicate of banks and a retail bond issue as described in note 19.

3. FINANCIAL RISK MANAGEMENT CONTINUED

The gearing ratio at the year end was as follows:

IN NZD 000	Note	GROUP	
		2013	2012
Debt	19	483,786	472,469
Cash and cash equivalents		(20,676)	(27,903)
Net debt		463,110	444,566
Equity		1,181,897	1,253,864
Net debt to equity ratio		39%	35%

The Group is subject to externally imposed debt limits with which it has complied for the entire year reported (2012: complied).

Fair value estimation

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

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

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

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

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

The information below relates to the Group only. Company information is not shown separately as there are no material differences between the Group and the Company.

		GROUP	
IN NZD 000	Notes	2013	2012
Assets measured at fair value			
Financial assets at fair value through profit or loss			
Trading derivatives – de-designated or not hedge accounted		528	293
Derivatives used for hedging – cash flow hedges		4,167	1,150
Total assets	20	4,695	1,443
Liabilities measured at fair value			
Financial liabilities at fair value through profit or loss			
Trading derivatives – de-designated or not hedge accounted		(808)	(2,031)
Derivatives used for hedging – cash flow hedges		(20,401)	(31,498)
Total liabilities	20	(21,209)	(33,529)

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

Specific valuation techniques used to value financial instruments include:

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

3. FINANCIAL RISK MANAGEMENT CONTINUED

Fair value of financial instruments carried at amortised cost

		GROUP				COMPANY			
		2013		2012		2013		2012	
IN NZD 000	Notes	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets									
Loans and receivables									
Cash and cash equivalents		20,676	20,676	27,903	27,903	13,664	13,664	14,654	14,654
Trade and other receivables	10	68,410	68,410	65,834	65,834	69,249	69,249	67,371	67,371
Related party advance	27	–	–	–	–	15,020	16,469	19,548	21,797
Total assets		89,086	89,086	93,737	93,737	97,933	99,382	101,573	103,822
Financial liabilities held at amortised cost									
Borrowings	19	270,835	270,061	256,740	256,147	270,835	270,061	256,740	256,147
Lease liabilities	19	13,937	15,000	17,014	17,610	–	–	–	–
Bonds	19	199,014	191,000	198,715	178,800	199,014	191,000	198,715	178,800
Trade and other payables	18	101,660	101,660	93,700	93,700	98,831	98,831	87,327	87,327
Total liabilities		585,446	577,721	566,169	546,257	568,680	559,892	542,782	522,274

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

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

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

a) Estimated impairment of goodwill and investment in subsidiaries

The Group tests whether goodwill and investments in subsidiaries have suffered any impairment at each year end, in accordance with the accounting policy stated in note 2. The recoverable amounts have been determined based on value-in-use calculations. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and use a suitable discount rate in order to calculate present value. The value of goodwill and investments in subsidiaries at the balance date was \$1,424 million and \$14 million respectively (30 June 2012: \$1,424 million and \$14 million). An impairment loss of \$6.1 million has been recognised on SKY's investment in Igloo and \$2.2 million was recognised on SKY's investment in Screen Enterprises Limited in the prior year. Details of the value-in-use calculation are provided in note 16.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

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 that estimated previously. The board and management regularly review economic life assumptions of these assets as part of management reporting procedures (refer note 13 for book value of these assets).

c) Deferred taxes

Deferred tax assets are recognised for unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and other deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based upon the likely timing and level of future taxable profits. The total carrying amount of unused tax losses and other deductible temporary differences of the Group and the Company for which deferred tax assets have been recognised are as disclosed in note 17.

5. SEGMENT REPORTING

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

6. OPERATING EXPENSES

		GROUP		COMPANY	
IN NZD 000	Notes	2013	2012	2013	2012
Depreciation and amortisation					
Depreciation of property, plant and equipment	13	124,580	124,881	117,083	116,602
Amortisation of intangibles	14	9,680	9,238	8,503	9,154
Total depreciation and amortisation		134,260	134,119	125,586	125,756
Impairment					
Impairment of investment	15	–	–	6,115	2,213
Impairment of inventory	11	1,405	403	–	–
Total depreciation, amortisation and impairment		135,665	134,522	131,701	127,969
Bad and doubtful debts					
Movement in provision		(1,279)	(1,452)	(1,281)	(1,447)
Net write-off		5,526	5,599	5,521	5,593
Total bad and doubtful debts	10	4,247	4,147	4,240	4,146
Fees paid to auditors					
Audit fees paid to principal auditors		243	249	200	214
Other assurance services by principal auditors					
Audit of regulatory returns		4	4	4	4
Greenhouse gas inventory review		–	14	–	14
Advisory services by principal auditors – Treasury		24	–	24	–
Total fees to auditors		271	267	228	232
Donations		353	329	353	329
Employee costs		85,875	82,967	80,898	78,452
Directors' fees		480	507	480	507
Operating lease and rental expenses		38,416	38,763	37,237	37,872

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

7. FINANCIAL (EXPENSE)/INCOME

	GROUP		COMPANY	
IN NZD 000	2013	2012	2013	2012
Finance income				
Interest income	132	924	1,313	2,248
Interest rate swaps – fair value gains	506	1,158	506	1,158
	638	2,082	1,819	3,406
Finance expense				
Interest expense on bank loans	(18,075)	(18,561)	(18,075)	(18,561)
Interest expense on bonds	(8,802)	(8,979)	(8,802)	(8,979)
Interest rate swaps – fair value loss	(222)	(921)	(222)	(921)
Finance lease interest	(1,092)	(1,298)	–	–
Amortisation of bond costs	(299)	(299)	(299)	(299)
Bank facility finance fees	(1,341)	(1,370)	(1,341)	(1,370)
Total interest expense(net)	(29,831)	(31,428)	(28,739)	(30,130)
Unrealised exchange (loss)/gain – foreign currency payables	(1,060)	(682)	(906)	(783)
Unrealised exchange gain/(loss) – foreign currency hedges	1,098	931	989	1,042
Realised exchange loss – foreign currency payables	(1,475)	(1,563)	(1,467)	(1,554)
Realised exchange gain – foreign currency hedges	745	391	745	391
	(29,885)	(30,269)	(27,559)	(27,628)

During the year, interest of \$439,000 (2012: \$567,000) was capitalised to projects (refer notes 13 and 14).

8. INCOME TAX EXPENSE

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

IN NZD 000	Note	GROUP		COMPANY	
		2013	2012	2013	2012
Profit before tax		188,995	171,634	192,746	175,090
Prima facie tax expense at 28%		52,919	48,058	53,969	49,025
Non-deductible expenses		2,516	890	2,509	880
Prior year adjustment		19	357	(455)	357
Current year tax loss not recognised		1,330	–	–	–
Other		(4)	(458)	(85)	324
Income tax expense		56,780	48,847	55,938	50,586
Allocated between					
Current tax payable		54,082	52,655	56,221	54,718
Deferred tax	17	2,698	(3,808)	(283)	(4,132)
Income tax expense		56,780	48,847	55,938	50,586
Imputation credits					
Imputation credits available for subsequent reporting periods based on a tax rate of 28%		13,466	44,265	13,466	44,166

The above amounts represent the balance of the imputation account as at the end of the reporting period adjusted for:

- Imputation credits that will arise from the payment of the amount of the provision for income tax.
- Imputation debits that will arise from the payment of dividends.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

9. EARNINGS PER SHARE

Basic earnings per share

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

	GROUP	
	2013	2012
Profit after tax attributable to equity holders of Parent (NZD 000)	137,197	123,670
Weighted average number of ordinary shares on issue (thousands)	389,140	389,140
Basic earnings per share (cents)	35.26	31.78
Weighted average number of ordinary shares	Number	Number
Issued ordinary shares at beginning of year	389,139,785	389,139,785
Issued ordinary shares at end of year	389,139,785	389,139,785
Weighted average number of ordinary shares	389,139,785	389,139,785

Diluted earnings per share

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

10. TRADE AND OTHER RECEIVABLES

IN NZD 000	Notes	GROUP		COMPANY	
		2013	2012	2013	2012
Trade receivables		67,651	66,232	66,243	64,318
Less provision for impairment of receivables		(1,387)	(2,666)	(1,379)	(2,660)
Trade receivables – net		66,264	63,566	64,864	61,658
Receivable from group subsidiaries	27	–	–	300	1,151
Current portion of advance to subsidiary	27	–	–	2,056	2,305
Other receivables		2,146	2,268	2,029	2,257
Prepaid expenses		3,720	7,738	3,065	7,186
Balance at end of year		72,130	73,572	72,314	74,557
Deduct prepaid expenses		(3,720)	(7,738)	(3,065)	(7,186)
Balance financial instruments	29	68,410	65,834	69,249	67,371

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.

IO. TRADE AND OTHER RECEIVABLES CONTINUED

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

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

IN NZD 000	GROUP			
	Gross 2013	Impairment	Gross 2012	Impairment
Residential subscribers	44,136	1,162	43,475	2,250
Commercial subscribers	4,393	8	4,099	23
Wholesale customers	8,733	-	8,071	-
Advertising	7,257	25	6,017	139
Commercial music	118	8	154	5
Other	3,014	184	4,416	249
	67,651	1,387	66,232	2,666

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

IN NZD 000	2013			2012		
	Neither past due nor impaired	Past due not impaired	Impaired	Neither past due nor impaired	Past due not impaired	Impaired
Not past due	57,709	-	-	54,274	-	-
Past due 0-30 days	-	6,700	31	-	6,613	70
Past due 31-60 days	-	1,446	20	-	1,838	85
Past due 61-90 days	-	404	307	-	464	541
Greater than 90 days	-	5	1,029	-	377	1,970
	57,709	8,555	1,387	54,274	9,292	2,666

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

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

IN NZD 000	Note	GROUP	
		2013	2012
Opening balance		2,666	4,118
Charged during the year	6	4,247	4,147
Utilised during the year		(5,526)	(5,599)
Closing balance		1,387	2,666

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

11. INVENTORY

	GROUP	
IN NZD 000	2013	2012
Decoder inventory	2,718	3,454
Other inventory	24	11
Less provision for impairment of decoder stock	(1,808)	(403)
Balance at end of year	934	3,062

Inventory relates to decoder stock held by SKY's subsidiary IGLOO. Inventory impairment recognised as an expense for the year ended 30 June 2013 amounted to \$1,405,000 (30 June 2012: \$403,000). This expense is included in corporate expenses in the Group accounts.

12. PROGRAMME RIGHTS INVENTORY

	GROUP AND COMPANY	
IN NZD 000	2013	2012
Cost	93,908	97,107
Less amortisation	(54,546)	(54,919)
Balance at end of year	39,362	42,188

13. PROPERTY, PLANT AND EQUIPMENT GROUP

IN NZD 000	Land, buildings & leasehold improvements	Broadcasting & studio equipment	Decoders & associated equipment	Capitalised installation costs	Other plant & equipment	Projects under development	Total
Cost							
Balance at 1 July 2012	48,617	151,028	532,529	505,625	50,093	24,553	1,312,445
Transfer between categories	343	1,134	–	–	10,615	(12,092)	–
Transfer to software assets	–	–	–	–	–	(13,793)	(13,793)
Additions	1,198	2,499	23,260	40,150	904	9,344	77,355
Disposals	(7)	(6)	(9,440)	(2,926)	(119)	–	(12,498)
Balance at 30 June 2013	50,151	154,655	546,349	542,849	61,493	8,012	1,363,509
Accumulated depreciation							
Balance at 1 July 2012	12,296	106,769	419,688	380,125	29,232	–	948,110
Depreciation for the year	2,068	16,972	51,079	49,557	4,904	–	124,580
Disposals	(2)	–	(9,440)	(2,926)	(118)	–	(12,486)
Balance at 30 June 2013	14,362	123,741	461,327	426,756	34,018	–	1,060,204
Net book value at 30 June 2013	35,789	30,914	85,022	116,093	27,475	8,012	303,305
Cost							
Balance at 1 July 2011	48,481	141,618	485,446	456,990	46,355	11,542	1,190,432
Transfer between categories	–	8,689	–	–	–	(8,689)	–
Additions	913	723	52,873	48,635	4,794	21,700	129,638
Disposals	(777)	(2)	(5,790)	–	(1,056)	–	(7,625)
Balance at 30 June 2012	48,617	151,028	532,529	505,625	50,093	24,553	1,312,445
Accumulated depreciation							
Balance at 1 July 2011	10,366	85,878	376,766	331,804	25,215	–	830,029
Depreciation for the year	1,930	20,891	48,712	48,321	5,027	–	124,881
Disposals	–	–	(5,790)	–	(1,010)	–	(6,800)
Balance at 30 June 2012	12,296	106,769	419,688	380,125	29,232	–	948,110
Net book value at 30 June 2012	36,321	44,259	112,841	125,500	20,861	24,553	364,335

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

13. PROPERTY, PLANT AND EQUIPMENT CONTINUED COMPANY

IN NZD 000	Land, buildings & leasehold improvements	Broadcasting & studio equipment	Decoders & associated equipment	Capitalised installation costs	Other plant & equipment	Projects under development	Total
Cost							
Balance at 1 July 2012	48,617	122,204	532,529	505,625	28,261	12,254	1,249,490
Transfer between categories	189	151	–	–	6,934	(7,274)	–
Transfer to software assets	–	–	–	–	–	(4,197)	(4,197)
Additions	1,198	1,584	23,260	40,150	904	7,010	74,106
Disposals	(7)	(6)	(9,440)	(2,926)	(81)	–	(12,460)
Balance at 30 June 2013	49,997	123,933	546,349	542,849	36,018	7,793	1,306,939
Accumulated depreciation							
Balance at 1 July 2012	12,296	95,331	419,688	380,125	22,963	–	930,403
Depreciation for the year	2,063	12,480	51,079	49,557	1,904	–	117,083
Disposals	(2)	–	(9,440)	(2,926)	(80)	–	(12,448)
Balance at 30 June 2013	14,357	107,811	461,327	426,756	24,787	–	1,035,038
Net book value at 30 June 2013	35,640	16,122	85,022	116,093	11,231	7,793	271,901
Cost							
Balance at 1 July 2011	48,481	121,483	485,446	456,990	27,963	2,853	1,143,216
Additions	913	723	52,873	48,635	1,322	9,401	113,867
Disposals	(777)	(2)	(5,790)	–	(1,024)	–	(7,593)
Balance at 30 June 2012	48,617	122,204	532,529	505,625	28,261	12,254	1,249,490
Accumulated depreciation							
Balance at 1 July 2011	10,366	80,579	376,766	331,804	21,078	–	820,593
Depreciation for the year	1,930	14,752	48,712	48,321	2,887	–	116,602
Disposals	–	–	(5,790)	–	(1,002)	–	(6,792)
Balance at 30 June 2012	12,296	95,331	419,688	380,125	22,963	–	930,403
Net book value at 30 June 2012	36,321	26,873	112,841	125,500	5,298	12,254	319,087

Land, buildings and leasehold improvements at 30 June 2013 includes land with a cost of \$4,986,000 (30 June 2012: \$4,986,000).

Additions in the current year to property, plant and equipment include \$239,000 of interest capitalised at an average borrowing rate of 6.58% (30 June 2012: \$325,000 at an average borrowing rate of 5.56%) and \$757,000 of capitalised labour costs (30 June 2012: \$2,162,000).

The net book value of assets subject to finance leases totals \$13,254,000 (30 June 2012: \$15,904,000) of which \$11,947,000 (30 June 2012: \$14,336,000) is included in broadcasting and studio equipment and \$1,307,000 (30 June 2012: \$1,568,000) is included in other plant and equipment.

14. OTHER INTANGIBLE ASSETS GROUP

IN NZD 000	Software	Broadcasting rights	Renewal rights	Other intangibles	Total
Cost					
Balance at 1 July 2012	58,595	5,447	37,088	3,167	104,297
Transfer from projects under development	13,793	–	–	–	13,793
Additions	6,273	–	–	–	6,273
Disposals	–	–	(37,088)	–	(37,088)
Balance at 30 June 2013	78,661	5,447	–	3,167	87,275
Accumulated amortisation					
Balance at 1 July 2012	38,721	1,216	37,088	2,961	79,986
Amortisation for the year	8,993	584	–	103	9,680
Disposals	–	–	(37,088)	–	(37,088)
Balance at 30 June 2013	47,714	1,800	–	3,064	52,578
Net book value at 30 June 2013	30,947	3,647	–	103	34,697
Cost					
Balance at 1 July 2011	55,935	5,447	37,088	3,167	101,637
Additions	2,684	–	–	–	2,684
Disposals	(24)	–	–	–	(24)
Balance at 30 June 2012	58,595	5,447	37,088	3,167	104,297
Accumulated amortisation					
Balance at 1 July 2011	30,946	676	36,440	2,710	70,772
Amortisation for the year	7,799	540	648	251	9,238
Disposals	(24)	–	–	–	(24)
Balance at 30 June 2012	38,721	1,216	37,088	2,961	79,986
Net book value at 30 June 2012	19,874	4,231	–	206	24,311

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

14. OTHER INTANGIBLE ASSETS CONTINUED

COMPANY

IN NZD 000	Software	Broadcasting rights	Renewal rights	Other intangibles	Total
Cost					
Balance at 1 July 2012	58,046	5,447	37,088	2,536	103,117
Transfer from projects under development	4,197	–	–	–	4,197
Additions	6,180	–	–	–	6,180
Disposals	–	–	(37,088)	–	(37,088)
Balance at 30 June 2013	68,423	5,447	–	2,536	76,406
Accumulated amortisation					
Balance at 1 July 2012	38,261	1,216	37,088	2,332	78,897
Amortisation for the year	7,816	584	–	103	8,503
Disposals	–	–	(37,088)	–	(37,088)
Balance at 30 June 2013	46,077	1,800	–	2,435	50,312
Net book value at 30 June 2013	22,346	3,647	–	101	26,094
Cost					
Balance at 1 July 2011	55,414	5,447	37,088	2,536	100,485
Additions	2,655	–	–	–	2,655
Disposals	(23)	–	–	–	(23)
Balance at 30 June 2012	58,046	5,447	37,088	2,536	103,117
Accumulated amortisation					
Balance at 1 July 2011	30,569	676	36,440	2,081	69,766
Amortisation for the year	7,715	540	648	251	9,154
Disposals	(23)	–	–	–	(23)
Balance at 30 June 2012	38,261	1,216	37,088	2,332	78,897
Net book value at 30 June 2012	19,785	4,231	–	204	24,220

Additions in the current year to software include \$200,000 of interest capitalised at an average borrowing rate of 6.58% (30 June 2012: \$242,000 at an average borrowing rate of 5.56%) and \$2,176,000 of capitalised labour costs (30 June 2012: \$122,000).

15. 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	
			Note	
			2013	2012
SKY DMX Music Limited	Commercial Music	SKY	50.50%	50.50%
Cricket Max Limited	Non-trading	SKY	100.00%	100.00%
Media Finance Limited	Non-trading	SKY	100.00%	100.00%
Outside Broadcasting Limited	Broadcasting services	SKY	100.00%	100.00%
Screen Enterprises Limited	Online DVD rental	SKY	51.00%	51.00%
Igloo Limited	Multi-channel pay television	SKY	28 66.02%	51.00%

Cost of investments

IN NZD 000	Note	COMPANY	
		2013	2012
SKY DMX Music Limited		5	5
Screen Enterprises Limited		4,002	4,002
Igloo Limited		18,500	12,750
		22,507	16,757
Less impairment of investment	6	(8,328)	(2,213)
Net value of investments		14,179	14,544

Igloo Limited was incorporated on 21 July 2011. SKY initially contributed \$12,750,000 and had a 51% interest, with TVNZ owning the other 49%. On 30 June 2013, SKY contributed an additional \$5,750,000, bringing its shareholding to 66%. At the same time an impairment of \$6,115,000 was recognised on the value of the initial investment (refer note 28). The impairment charge is included in corporate expenses in the Parent Accounts (note 6).

In the prior year, SKY revised its growth assumptions in relation to Screen Enterprises Limited, the forecasts for which have been adversely impacted by technology changes. Consequently, an impairment of \$2,213,000 was recognised in the carrying value of the investment in the Parent's financial statements. The charge was included in corporate expenses (note 6). The Group results for the year and assets were not affected, as the goodwill on consolidation arising on the original investment in this entity in June 2008 was reduced through the elimination of gains not realised outside the Group.

No further impairment has been recognised in the current year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

16. GOODWILL

	GROUP		COMPANY	
IN NZD 000	2013	2012	2013	2012
Balance at beginning of year and end of year	1,424,494	1,424,494	1,422,465	1,422,465
Goodwill has arisen on the following acquisitions:				
Merger of SKY and INL	1,405,169	1,405,169	1,405,169	1,405,169
Acquisition of Prime	16,946	16,946	16,946	16,946
Acquisition of the Arts Channel	350	350	350	350
Acquisition of Screen Enterprises	962	962	–	–
Acquisition of OSB	1,067	1,067	–	–
	1,424,494	1,424,494	1,422,465	1,422,465

The Group tests goodwill for impairment annually or more frequently, if there are indications that goodwill might be impaired. The Group operates as a single business segment and, accordingly, impairment is tested by comparing the total carrying value of SKY's goodwill to the recoverable amount. If the carrying value exceeds the recoverable amount, goodwill is considered to be impaired. The recoverable amount has been measured based on the value-in-use, using the discounted cash flow model. The key assumptions for the value-in-use calculation are those regarding the discount rates, subscription numbers, expected churn percentages, changes in foreign exchange rates and any expected changes to subscriptions or direct costs during the period. Management estimates discount rates using rates that reflect current market assessments of the time value of money and the risks specific to the business. Growth rates are based on expected forecasts and changes in prices and direct costs based on past practice and expectations of future changes in the market. The goodwill impairment tests carried out have resulted in no impairment charge for the year (2012: nil).

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

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

Key assumptions used for value-in-use calculation

IN NZD 000	2013	2012
Customer churn rates	14.4%	13.1%-11.7%
Net gain in customer numbers (excl. churn)	10,000 - 30,000	31,000
Pre-tax discount rate	13.2%	13.2%
USD FX rate	0.82 - 0.72	0.80-0.63
Long-term growth rate	1.00%	1.00%

Sensitivity of recoverable amounts

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

17. DEFERRED TAX

IN NZD 000	GROUP		COMPANY	
	2013	2012	2013	2012
Deferred tax asset	–	1,159	–	–
Deferred tax liability	(40,122)	(34,811)	(36,390)	(32,901)
Closing balance	(40,122)	(33,652)	(36,390)	(32,901)

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

GROUP

IN NZD 000	Notes	Fixed assets	Leased assets	Other	Hedges through equity	Total
For the year ended 30 June 2013						
At 1 July 2012		(27,416)	(21,576)	7,639	7,701	(33,652)
NZ IAS 39 hedging adjustment credited direct to equity	23	–	–	–	(3,772)	(3,772)
Credited/(charged) to income statement	8	3,286	(2,359)	(3,625)	–	(2,698)
Balance at 30 June 2013		(24,130)	(23,935)	4,014	3,929	(40,122)
Deferred tax reversing within 12 months		3,900	(533)	4,014	612	7,993
Deferred tax to be recovered after more than 12 months		(28,030)	(23,402)	–	3,317	(48,115)
		(24,130)	(23,935)	4,014	3,929	(40,122)
For the year ended 30 June 2012						
At 1 July 2011		(30,277)	(19,183)	4,299	8,570	(36,591)
NZ IAS 39 hedging adjustment credited direct to equity	23	–	–	–	(869)	(869)
Credited/(charged) to income statement	8	2,861	(2,393)	3,340	–	3,808
Balance at 30 June 2012		(27,416)	(21,576)	7,639	7,701	(33,652)
Deferred tax reversing within 12 months		4,319	(15,498)	6,651	1,924	(2,604)
Deferred tax to be recovered after more than 12 months		(31,735)	(6,078)	988	5,777	(31,048)
		(27,416)	(21,576)	7,639	7,701	(33,652)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

17. DEFERRED TAX CONTINUED

COMPANY

IN NZD 000	Notes	Fixed assets	Leased assets	Other	Hedges through equity	Total
For the year ended 30 June 2013						
At 1 July 2012		(25,203)	(21,796)	6,437	7,661	(32,901)
NZ IAS 39 hedging adjustment credited direct to equity	23	–	–	–	(3,772)	(3,772)
Credited/(charged) to income statement	8	5,003	(2,266)	(2,454)	–	283
Balance at 30 June 2013		(20,200)	(24,062)	3,983	3,889	(36,390)
Deferred tax reversing within 12 months		4,003	(576)	3,983	572	7,982
Deferred tax to be recovered after more than 12 months		(24,203)	(23,486)	–	3,317	(44,372)
		(20,200)	(24,062)	3,983	3,889	(36,390)
For the year ended 30 June 2012						
At 1 July 2011		(29,449)	(19,501)	4,256	8,570	(36,124)
NZ IAS 39 hedging adjustment credited direct to equity	23	–	–	–	(909)	(909)
Credited/(charged) to income statement	8	4,246	(2,295)	2,181	–	4,132
Balance at 30 June 2012		(25,203)	(21,796)	6,437	7,661	(32,901)
Deferred tax reversing within 12 months		6,036	(15,585)	6,437	1,884	(1,228)
Deferred tax to be recovered after more than 12 months		(31,239)	(6,211)	–	5,777	(31,673)
		(25,203)	(21,796)	6,437	7,661	(32,901)

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.

In the prior year, deferred tax assets were recognised for tax loss carry forwards relating to IGLOO to the extent that the realisation of the related future tax benefit was expected to be probable. IGLOO had gross tax losses of \$3,035,000 that could be carried forward against future taxable income. The benefit of these losses was recognised in full in the financial statements based on forecasts that indicated that IGLOO expected to utilise the majority of these tax losses within the next four years. The current-year tax expense includes the reversal of the prior year deferred tax asset of \$850,000 relating to these losses.

IGLOO's most recent forecasts indicate the utilisation of the losses will be incurred over a longer period. Therefore the asset previously recognised has been reversed.

The gross tax losses not recognised at 30 June 2013 were \$12,539,000. These tax losses can be carried forward for use against future taxable profits of IGLOO, subject to meeting the requirements of the income tax legislation, including shareholder continuity.

18. TRADE AND OTHER PAYABLES

IN NZD 000	Notes	GROUP		COMPANY	
		2013	2012	2013	2012
Trade payables		57,884	51,668	55,851	48,259
Due to related parties	27	482	3,343	1,266	3,422
Unearned subscriptions		60,824	58,249	60,680	58,141
Employee entitlements		11,452	10,927	11,066	10,460
Deferred revenue		1,028	1,777	1,027	1,777
Accruals		31,842	27,762	30,648	25,186
Balance at end of year		163,512	153,726	160,538	147,245
Less					
Deferred revenue		(1,028)	(1,777)	(1,027)	(1,777)
Unearned subscriptions		(60,824)	(58,249)	(60,680)	(58,141)
Balance financial instruments	29	101,660	93,700	98,831	87,327

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

19. BORROWINGS

GROUP

IN NZD 000	2013			2012		
	Current	Non-current	Total	Current	Non-current	Total
Lease liabilities	3,288	10,649	13,937	3,078	13,936	17,014
Bank loans	–	270,835	270,835	–	256,740	256,740
Bonds	–	199,014	199,014	–	198,715	198,715
	3,288	480,498	483,786	3,078	469,391	472,469

COMPANY

IN NZD 000	2013			2012		
	Current	Non-current	Total	Current	Non-current	Total
Bank loans	–	270,835	270,835	–	256,740	256,740
Bonds	–	199,014	199,014	–	198,715	198,715
	–	469,849	469,849	–	455,455	455,455

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

Repayment terms

IN NZD 000	GROUP		COMPANY	
	2013	2012	2013	2012
Less than one year	3,288	3,078	–	–
Between one and five years	209,663	212,651	199,014	455,455
More than five years	270,835	256,740	270,835	–
	483,786	472,469	469,849	455,455

On 30 June 2011, SKY negotiated a \$400 million negative pledge five-year revolving credit bank facility from a syndicate of banks comprising ANZ National Bank Limited, Bank of New Zealand, Commonwealth Bank of Australia and Westpac Bank. The loan replaced SKY's 2005 original loan facility and was first drawn down on 16 September 2011. Interest is charged on drawings under the facility at a rate between 1.80% and 2.5% per annum above the average bid rate for the purchase of bank-accepted bills of exchange. There is a commitment fee payable on the undrawn balance of the facility of between 0.9% and 1.25% per annum. There are no required repayment tranches of the facility. The facility can be partially or fully cancelled at SKY's discretion. In June 2013, the bank facility termination date was extended by 12 months to 17 July 2018.

In the prior year, bank borrowings of \$205 million outstanding under the original facility were repaid and a new drawdown of \$358 million was taken up. The additional borrowings were used to pay out the special dividend of 25c per share declared in September 2011. In the comparative year "advances received – bank loans" in the cash flow statement included \$5 million relating to the original loan and "repayment of borrowings – bank loans" included \$95 million for repayment of the new loan.

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

Fair values

The fair value of the variable rate bank loans at 30 June 2013 was \$270.1 million (30 June 2012: \$256.1 million). The difference between the carrying amount and fair value has not been recognised in the financial statements as the bank loans are intended to be held to maturity.

19. BORROWINGS CONTINUED

Bonds

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

Terms and conditions of outstanding bonds are as follows:

	GROUP AND COMPANY	
	2013	2012
Nominal interest rate	3.19%	3.60%
Date of maturity	16 Oct 2016	16 Oct 2016
IN NZD 000		
Carrying amount	199,014	198,715
Face value	200,000	200,000

The bonds are subject to a call option commencing on 16 October 2009 and each subsequent 16 October until 16 October 2015 whereby the Group has the right to redeem or repurchase all or some of the bonds on each anniversary of the issue date. The market yield of the bonds at 30 June 2013 was 4.80% (30 June 2012: 6.77%). The fair value of the bonds at 30 June 2013 was \$191 million (30 June 2012 \$179 million). The difference between the carrying amount and fair value has not been recognised in the financial statements as the bonds are intended to be held until maturity.

Lease liabilities

As at 30 June 2013, borrowings included the lease liabilities taken over as part of the purchase of the net assets acquired from On Site Broadcasting (NZ) Limited. The Group's obligations under finance leases are secured by the lessors' title to the leased assets. The lease terms are for five years ending on 7 April 2015 and 20 August 2015.

Lease liabilities' present value

IN NZD 000	2013	2012
Current	3,288	3,078
Non-current	10,649	13,936
	13,937	17,014

Repayment terms

Finance lease liabilities – minimum lease payments

Within one year	4,143	4,143
One to five years	3,684	7,825
Residual value	7,547	7,547
	15,374	19,515
Future finance charges on finance leases	(1,437)	(2,501)
Present value of finance lease liabilities	13,937	17,014

The present value of lease liabilities is as follows:

Within one year	4,049	4,053
One to five years	9,888	12,961
	13,937	17,014

Interest paid in the current period includes \$1,092,000 (2012: \$1,298,000) relating to finance leases. The effective interest rate is 6.8%.

The fair value of the finance lease liabilities at 30 June 2013 was \$15,000,000 (30 June 2012: \$17,600,000). The difference between carrying amount and fair value has not been recognised in the financial statements as the lease liabilities are intended to be held until maturity. The lease liabilities are secured over the assets of OSB.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

20. DERIVATIVE FINANCIAL INSTRUMENTS

		GROUP			COMPANY		
IN NZD 000	Notes	Assets	Liabilities	Notional amounts	Assets	Liabilities	Notional amounts
As at 30 June 2013							
Interest rate hedges and collars – cash flow hedges		1,949	(14,620)	370,000	1,949	(14,620)	370,000
Interest rate hedges – fair value		85	–	–	85	–	–
Total interest rate hedges		2,034	(14,620)	370,000	2,034	(14,620)	370,000
Forward foreign exchange contracts – cash flow hedges		2,218	(5,781)	173,796	2,160	(5,781)	173,013
Forward foreign exchange contracts – fair value		443	(808)	36,312	443	(808)	36,312
Total forward foreign exchange hedges		2,661	(6,589)	210,108	2,603	(6,589)	209,325
		4,695	(21,209)	580,108	4,637	(21,209)	579,325
Analysed as:							
Current		2,324	(6,821)	173,563	2,266	(6,821)	172,780
Non-current		2,371	(14,388)	406,545	2,371	(14,388)	406,545
		4,695	(21,209)	580,108	4,637	(21,209)	579,325
Derivatives used for hedging – cash flow hedges	29	4,167	(20,401)	543,796	4,109	(20,401)	543,013
At fair value through profit and loss – fair value	29	528	(808)	36,312	528	(808)	36,312
		4,695	(21,209)	580,108	4,637	(21,209)	579,325
As at 30 June 2012							
Interest rate hedges and collars – cash flow hedges		62	(24,219)	350,000	62	(24,219)	350,000
Interest rate hedges – fair value		226	–	–	226	–	–
Total interest rate hedges		288	(24,219)	350,000	288	(24,219)	350,000
Forward foreign exchange contracts – cash flow hedges		1,088	(7,279)	181,603	1,088	(7,027)	178,659
Forward foreign exchange contracts – fair value		67	(2,031)	32,671	67	(2,031)	32,671
Total forward foreign exchange hedges		1,155	(9,310)	214,274	1,155	(9,058)	211,330
		1,443	(33,529)	564,274	1,443	(33,277)	561,330
Analysed as:							
Current		1,013	(11,386)	229,290	1,013	(11,134)	226,346
Non-current		430	(22,143)	334,984	430	(22,143)	334,984
		1,443	(33,529)	564,274	1,443	(33,277)	561,330
Derivatives used for hedging – cash flow hedges	29	1,150	(31,498)	531,603	1,150	(31,246)	528,659
At fair value through profit and loss – fair value	29	293	(2,031)	32,671	293	(2,031)	32,671
		1,443	(33,529)	564,274	1,443	(33,277)	561,330

20. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

Derivative financial assets for the Company included intergroup derivatives issued to IGLOO of \$58,000 with a nominal value of \$783,000 (30 June 2012: derivative financial liabilities included \$252,000 with a notional value of \$2,944,000).

Exchange rates

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

	2013	2012
USD	0.7808	0.7975
AUD	0.8436	0.7841
GBP	0.5121	0.5101
EURO	0.5985	0.6339
JPY	77.1665	63.4571

Forward foreign exchange contracts

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 36 months. Gains and losses recognised in the hedging reserve in equity (note 23) on forward exchange contracts as of 30 June 2013 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement. Generally, the gain or loss is recognised as a basis price adjustment for the purchase of programme rights, and is written off in the income statement over the rights period.

Credit risk – derivative financial instruments

The maximum exposure to credit risk on the derivative financial instruments is the value of the derivative assets' receivable portion of \$4,695,000 (2012: \$1,443,000).

Exposure to currency risk

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

	2013			2012		
IN NZD 000	USD	AUD	OTHER	USD	AUD	OTHER
Foreign currency payables	(20,777)	(16,326)	(140)	(21,801)	(15,128)	(174)
De-designated forward exchange contracts	23,687	12,623	–	22,954	9,717	–
Net balance sheet exposure	2,910	(3,703)	(140)	1,153	(5,411)	(174)
Forward exchange contracts (for forecasted transactions)	60,608	111,960	1,227	115,270	64,655	1,678
Total forward exchange contracts	84,295	124,583	1,227	138,224	74,372	1,678

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

20. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

Sensitivity analysis

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

IN NZD 000 Gain/(loss)	10% rate increase		10% rate decrease	
	Equity	Profit or loss	Equity	Profit or loss
As at 30 June 2013				
USD	(5,602)	(2,168)	6,847	2,651
AUD	(9,480)	(1,062)	11,587	1,299
Other	(117)	–	143	–
	(15,199)	(3,230)	18,577	3,950
As at 30 June 2012				
USD	(9,488)	(1,559)	11,597	1,905
AUD	(5,780)	(874)	7,064	1,070
Other	(147)	–	179	–
	(15,415)	(2,433)	18,840	2,975

20. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

Interest rates

During the year ended 30 June 2013, interest rates on borrowings varied in the range of 4.5% to 6.6% (2012: 3.1% to 6.8%).

The Group's interest rate structure is as follows:

IN NZD 000	Notes	GROUP			COMPANY		
		Effective interest rate	Current	Non-current	Effective interest rate	Current	Non-current
As at 30 June 2013							
Assets							
Cash and cash equivalents		2.44%	20,676	–	2.44%	13,664	–
Related party advance	27	n/a	–	–	7.50%	2,056	12,964
Liabilities							
Bank loans		6.58%	–	(270,835)	6.58%	–	(270,835)
Bonds		4.45%	–	(199,014)	4.45%	–	(199,014)
Lease liabilities		6.80%	(3,288)	(10,649)	n/a	–	–
Derivatives							
Floating to fixed interest rate swaps			–	370,000		–	370,000
Fixed to floating interest rate swaps			200,000	–		200,000	–
			217,388	(110,498)			
			217,388	(110,498)			
As at 30 June 2012							
Assets							
Cash and cash equivalents		2.44%	27,903	–	2.44%	14,654	–
Related party advance	27	n/a	–	–	7.50%	2,305	17,243
Liabilities							
Bank loans		6.73%	–	(256,740)	6.73%	–	(256,740)
Bonds		4.45%	–	(198,715)	4.45%	–	(198,416)
Lease liabilities		6.80%	(3,078)	(13,936)	n/a	–	–
Derivatives							
Floating to fixed interest rate swaps			50,000	300,000		50,000	300,000
Fixed to floating interest rate swaps			200,000	–		200,000	–
			274,825	(169,391)			
			274,825	(169,391)			

Gains and losses recognised in the hedging reserve in equity (note 23) on interest rate hedges as at 30 June 2013 will be continuously released to the income statement within finance cost until the repayment of the bank borrowings and bonds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

20. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

Sensitivity analysis for interest-bearing instruments

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

	100 BP increase		100 BP decrease	
IN NZD 000 Gain/(loss)	Equity	Profit and loss	Equity	Profit and loss
As at 30 June 2013				
Expense/(income)				
Variable rate instruments – bank loans	–	2,572	–	(2,572)
Interest rate hedges – cash flow	(10,235)	–	10,816	–
Interest rate hedges – fair value	–	489	–	(498)
	(10,235)	3,061	10,816	(3,070)
As at 30 June 2012				
Expense/(income)				
Variable rate instruments – bank loans	–	2,421	–	(2,421)
Interest rate hedges – cash flow	(11,772)	–	12,517	–
Interest rate hedges – fair value	–	485	–	(491)
	(11,772)	2,906	12,517	(2,912)

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

21. PROVISIONS

	GROUP AND COMPANY	
IN NZD 000	2013	2012
Opening balance	352	537
Increase in provision	264	54
Used during the year	(229)	(239)
Balance at end of year	387	352
Analysis of total provisions		
Current	43	39
Non-current	344	313
	387	352

As part of the purchase of Prime Television in 2006, provision was made for programme rights which were considered to be onerous. These rights were fully utilised in the prior year. The remaining provisions relate to long service leave.

22. SHARE CAPITAL

GROUP AND COMPANY	Number of shares (000)	Ordinary shares (NZD 000)
Shares on issue at 30 June 2013 and 30 June 2012	389,140	577,403

Ordinary shares have no par value.

SKY paid a final dividend of 11.0 cents in September 2012 (September 2011: 10.5 cents) and a special dividend of 32.0 cents in December 2012 (September 2011: 25.0 cents). An interim dividend of 12.0 cents was paid in March 2013 (March 2012: 11.0 cents).

As at 30 June 2013 and 2012, there were 389,139,785 ordinary shares authorised, issued and fully paid. Ordinary shares rank equally, carry voting rights and participate in distributions.

23. HEDGING RESERVE

IN NZD 000	Note	GROUP		COMPANY	
		2013	2012	2013	2012
Balance at 1 July		(19,805)	(22,038)	(19,702)	(22,038)
Cash flow hedges					
Unrealised gains/(losses) during the year		3,964	(7,841)	3,877	(7,698)
Transfer to basis price adjustment programme rights inventory		8,050	9,141	8,050	9,141
Transfer to property, plant and equipment		58	1,042	–	1,042
Transfer to operating expenses		1,545	760	1,545	760
Deferred tax	17	(3,772)	(869)	(3,772)	(909)
		9,845	2,233	9,700	2,336
Balance at end of year		(9,960)	(19,805)	(10,002)	(19,702)

24. RETAINED EARNINGS

IN NZD 000	GROUP		COMPANY	
	2013	2012	2013	2012
Opening balance	684,084	741,364	687,660	744,106
Add net profit for the year	137,197	123,670	136,808	124,504
Change in non-controlling interest	(165)	–	–	–
Less dividends paid	(214,027)	(180,950)	(214,027)	(180,950)
Balance at end of year	607,089	684,084	610,441	687,660

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

25. COMMITMENTS

	GROUP		COMPANY	
IN NZD 000	2013	2012	2013	2012
Operating leases:				
Year 1	37,336	37,495	36,798	37,100
Year 2	38,818	37,906	38,298	37,598
Year 3	38,395	41,176	38,003	40,870
Year 4	37,909	40,827	37,605	40,613
Year 5	37,767	40,310	37,537	40,237
Later than five years	126,967	176,607	126,871	176,607
	317,192	374,321	315,112	373,025
Contracts for transmission services:				
Year 1	7,577	9,754	7,096	9,273
Year 2	5,872	7,233	5,391	6,752
Year 3	2,412	5,811	1,992	5,391
Year 4	1,607	2,412	1,328	1,992
Year 5	–	1,607	–	1,328
	17,468	26,817	15,807	24,736
Contracts for future programmes:				
Year 1	129,720	116,811	129,720	116,811
Year 2	83,988	89,494	83,988	89,494
Year 3	53,958	56,068	53,958	56,068
Year 4	28,679	28,900	28,679	28,900
Year 5	12,288	7,800	12,288	7,800
Later than five years	–	2,303	–	2,303
	308,633	301,376	308,633	301,376
Capital expenditure commitments:				
Property, plant and equipment				
Year 1	9,682	10,539	9,682	9,265
Other services commitments:				
Year 1	4,941	1,540	4,941	1,387
Year 2	4,199	1,241	4,199	1,241
Year 3	3,497	1,089	3,497	1,089
Year 4	677	1,000	677	1,000
Year 5	367	–	367	–
Later than five years	91	–	91	–
	13,772	4,870	13,772	4,717

25. COMMITMENTS CONTINUED

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

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

26. CONTINGENT LIABILITIES

The Group and Company have undrawn letters of credit at 30 June 2013 of \$600,000 (30 June 2012: \$600,000), relating to Datacom Employer Services for SKY executive and Screen Enterprises Limited payroll liabilities in the current year.

The Group and Company are subject to litigation incidental to their 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.

On 16 May 2012, the Company received notification from the Commerce Commission that it was opening an investigation into SKY's agreements for the acquisition of content and its agreements with internet retail service providers. The Company has provided all information requested by the Commission to date. The Directors have no knowledge which would indicate the need to make any provision in these financial statements for any liabilities which may arise in the event that any action was taken (2012: nil).

27. RELATED PARTIES

For the Company, related parties include the subsidiary companies of the SKY Group (note 15) and the non-controlling shareholders of these companies. For the Group, related parties include the non-controlling shareholders of subsidiary companies.

In the prior year, related parties for the Group included News Limited, a principal shareholder which is an affiliate of The News Corporation Limited, and the non-controlling shareholders of subsidiary companies. News Limited sold its shares in SKY on 4 March 2013. Consequently, related party disclosures under "Transactions in the income statement" include transactions with News Limited and its subsidiaries from 1 July 2012 to 4 March 2013.

There were no loans to directors by the Company or associated parties at balance date (30 June 2012: nil).

The advance to subsidiary comprises two advances with an original term of 10 years expiring on 30 June 2020 and 30 June 2021 respectively. The interest rate is 7.5% payable monthly in arrears and principal repayments are made quarterly. No amounts owed by related parties have been written off or provided against during the year (30 June 2012: nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

27. RELATED PARTIES CONTINUED

The following transactions were carried out with related parties:

IN NZD 000	Notes	GROUP		COMPANY	
		2013	2012	2013	2012
Transactions included in the income statement:					
Transactions with related parties					
The News Corporation Limited and its affiliates					
Programme, smartcard and broadcasting equipment		16,189	18,766	16,189	18,766
Transactions with subsidiaries					
SKY DMX Music Limited					
Administration support, accounting services and broadcasting charges		–	–	340	355
Outside Broadcasting Limited					
Interest received on advance to subsidiary		–	–	(1,344)	(1,637)
Broadcasting fees paid		–	–	11,120	11,163
Igloo Limited					
Administration costs and unrealised exchange gains on hedging contracts				(212)	(215)
Transmission services and spectrum licences				(2,111)	(401)
Transactions included in the balance sheet:					
Owing to related parties					
Owing to affiliates of The News Corporation Limited and non-controlling shareholders of Screen Enterprises Limited	18	482	3,343	1,266	3,422
Receivable/(payable) from/to subsidiaries					
Trade receivable from subsidiaries	10	–	–	300	1,151
Derivatives issued to subsidiaries	20	–	–	(58)	252
Current portion of advance to subsidiary	10	–	–	2,056	2,305
Non-current portion of advance to subsidiary		–	–	12,964	17,243
Total advance to subsidiary		–	–	15,020	19,548

SKY and TVNZ have agreed to provide IGLOO with advertising airtime at no cost during the financial years commencing 1 July 2012, 1 July 2013 and 1 July 2014.

Short-term employee benefits

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

IN NZD 000	GROUP AND COMPANY	
	2013	2012
Directors' fees	480	507
Remuneration of key management personnel	10,513	9,479
	10,993	9,986

Long-service leave entitlements for key management personnel are \$44,000 (2012: \$51,000).

28. CHANGES IN GROUP STRUCTURE

Igloo Limited was incorporated on 21 July 2011. SKY initially contributed \$12,750,000 and had a 51% interest, with TVNZ owning the other 49% having contributed \$12,250,000. On 28 June 2013, SKY contributed a further \$5,750,000 and increased its ownership to 66% with TVNZ now owning 34%.

The carrying amount of the non-controlling interest in IGLOO on the date of acquisition was \$5,900,000. After the transaction, the Group recognised non-controlling interests of \$6,065,000 and recorded a decrease in equity of \$165,000. An option has been granted to TVNZ to acquire further shares at a set price in two years' time to restore its proportionate shareholding to 49%.

Igloo Limited delivers a low-cost pay television service over the digital terrestrial network and receives the free-to-air channels. In addition, IGLOO offers pay-per-view sport and movies. Igloo Limited is considered a subsidiary of SKY and has been fully consolidated into the Group's results.

29. FINANCIAL INSTRUMENTS BY CATEGORY

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

GROUP

IN NZD 000	Notes	Other financial liabilities	Loans and receivables	At fair value through the profit and loss	Derivatives used for hedging	Total
30 June 2013						
Assets as per balance sheet						
Cash and cash equivalents		–	20,676	–	–	20,676
Trade and other receivables	10	–	68,410	–	–	68,410
Derivative financial instruments	20	–	–	528	4,167	4,695
Liabilities as per balance sheet						
Trade and other payables	18	(101,660)	–	–	–	(101,660)
Borrowings	19	(270,835)	–	–	–	(270,835)
Lease liabilities	19	(13,937)	–	–	–	(13,937)
Bonds	19	(199,014)	–	–	–	(199,014)
Derivative financial instruments	20	–	–	(808)	(20,401)	(21,209)
		(585,446)	89,086	(280)	(16,234)	(512,874)
30 June 2012						
Assets as per balance sheet						
Cash and cash equivalents		–	27,903	–	–	27,903
Trade and other receivables	10	–	65,834	–	–	65,834
Derivative financial instruments	20	–	–	293	1,150	1,443
Liabilities as per balance sheet						
Trade and other payables	18	(93,700)	–	–	–	(93,700)
Borrowings	19	(256,740)	–	–	–	(256,740)
Lease liabilities	19	(17,014)	–	–	–	(17,014)
Bonds	19	(198,715)	–	–	–	(198,715)
Derivative financial instruments	20	–	–	(2,031)	(31,498)	(33,529)
		(566,169)	93,737	(1,738)	(30,348)	(504,518)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2013

29. FINANCIAL INSTRUMENTS BY CATEGORY CONTINUED

COMPANY

IN NZD 000	Notes	Other financial liabilities	Loans and receivables	At fair value through the profit and loss	Derivatives used for hedging	Total
30 June 2013						
Assets as per balance sheet						
Cash and cash equivalents		–	13,664	–	–	13,664
Trade and other receivables	10	–	69,249	–	–	69,249
Related party receivables	27	–	15,020	–	–	15,020
Derivative financial instruments	20	–	–	528	4,109	4,637
Liabilities as per balance sheet						
Trade and other payables	18	(98,831)	–	–	–	(98,831)
Borrowings	19	(270,835)	–	–	–	(270,835)
Bonds	19	(199,014)	–	–	–	(199,014)
Derivative financial instruments	20	–	–	(808)	(20,401)	(21,209)
		(568,680)	97,933	(280)	(16,292)	(487,319)
30 June 2012						
Assets as per balance sheet						
Cash and cash equivalents		–	14,654	–	–	14,654
Trade and other receivables	10	–	67,371	–	–	67,371
Related party receivables	27	–	19,548	–	–	19,548
Derivative financial instruments	20	–	–	293	1,150	1,443
Liabilities as per balance sheet						
Trade and other payables	18	(87,327)	–	–	–	(87,327)
Borrowings	19	(256,740)	–	–	–	(256,740)
Bonds	19	(198,715)	–	–	–	(198,715)
Derivative financial instruments	20	–	–	(2,031)	(31,246)	(33,277)
		(542,782)	101,573	(1,738)	(30,096)	(473,043)

30. SUBSEQUENT EVENTS

There have been no subsequent events after balance date.

INDEPENDENT AUDITORS' REPORT

To the shareholders of SKY Network Television Limited



REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of SKY Network Television Limited ("the Company") on pages 35 to 82, which comprise the balance sheets as at 30 June 2013, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 30 June 2013 or from time to time during the financial year.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

We have no relationship with, or interests in, SKY Network Television Limited other than in our capacities as auditors and through the provision of other assignments for the Company in the areas of assurance and advisory services. In addition, certain partners and employees of our firm may have dealt with the Company and Group on normal terms within the ordinary course of the trading activities of the Company and Group. These services have not impaired our independence as auditors of the Company and Group.

Opinion

In our opinion, the financial statements on pages 35 to 82:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company and the Group as at 30 June 2013, and their financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2013:

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

RESTRICTION ON DISTRIBUTION OR USE


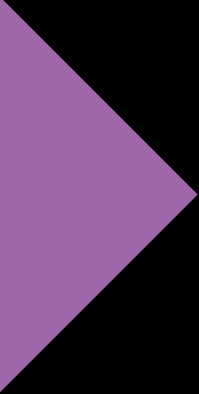
This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for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

PricewaterhouseCoopers

Chartered Accountants

Auckland

22 August 2013



CLOSING CREDITS

OTHER INFORMATION

**THE SHOW'S NOT OVER UNTIL THE FAT LADY SINGS!
DON'T LEAVE JUST YET, WE STILL HAVE IMPORTANT
INFORMATION AND OUTTAKES TO COME.**

86	CORPORATE GOVERNANCE STATEMENT
89	INTERESTS REGISTER
91	COMPANY AND BONDHOLDER INFORMATION
95	WAIVERS AND INFORMATION
96	SHARE MARKET AND OTHER INFORMATION
97	DIRECTORY
98	SKY CHANNELS

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 2013, the board consisted of six directors whose relevant skills, experience and expertise are outlined in their biographies on pages 30 and 31. The nomination and remuneration committee has a formal process by which it assesses the overall skills, experience and diversity required on the board. Through this process, the nomination and remuneration committee evaluates potential board candidates. The aim of the board is to have a mix of skills represented on the board that are relevant to SKY's business. The current mix of skills on the board includes financial, commercial, subscription television, marketing, human resources, sports management and governance skills. In terms of diversity, there are no women on SKY's board as at 30 June 2013. The board has this issue under review.

SKY's constitution provides for a minimum of three directors and a maximum of 10 directors. The actual number of directors may be changed by resolution of the board, and is currently set at eight. The board may appoint directors to fill casual vacancies that occur or add persons to the board up to the maximum number prescribed by the constitution. At each annual meeting, all directors appointed by the board must retire and one third of the other directors must retire, although they can offer themselves for re-election during the year. Directors' fees have been set at a maximum amount of \$750,000 per annum.

Role of the Board

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

Various information reports are sent to the board in order to keep them informed about SKY's business including reports during the year ended 30 June 2013 on the effectiveness of the management of material legal and business risks. Directors also receive operating and financial reports, and access to senior management at board and committee meetings.

Independent and Executive Directors

At 30 June 2013, the independent directors on SKY's board were Robert Bryden, John Hart, Peter Macourt, Humphry Rolleston and John Waller (the board determined on 10 April 2013 that Peter Macourt qualified as an independent director given that he had ceased to be a director or employee of News Limited in December 2011 and as of 4 March 2013 News Limited had sold all of its shareholding in SKY). John Fellet is not considered to be independent, and is the only executive director on the board.

Term of Office

John Waller was appointed to SKY's board on 23 April 2009. Humphry Rolleston was appointed to SKY's board on 8 September 2005. Each of the other directors was appointed to SKY's board on 2 May 2005. This appointment date reflects the merger between the previous SKY company and Independent Newspapers Limited (INL) in 2005; this merger resulted in the current SKY company.

The term of each director's association with SKY (including the previous SKY company prior to the merger with INL) is indicated in their biographies set out on pages 30 and 31.

Meetings

The board has regularly scheduled meetings and also meets when a matter of particular significance arises. During the year between 1 July 2012 and 30 June 2013, the board met seven times. Attendance at full board meetings was as follows:

	Meetings held while a director	Attendance
Peter Macourt	7	7
Robert Bryden	7	6
John Fellet	7	7
John Hart	7	7
Michael Miller ⁽¹⁾	5	5
Humphry Rolleston	7	7
John Waller	7	6

(1) Michael Miller resigned as a director on 4 March 2013.

There were four teleconference board meetings, in addition to the above, in which all directors participated other than Humphry Rolleston who participated in three of those meetings.

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 responsible for establishing and evaluating risk management policies and procedures for risk assessment. The current members are Robert Bryden, John Waller and Humphry Rolleston.

Nomination and Remuneration Committee

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

Related Parties Committee

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

Committee Meetings

During the year ended 30 June 2013:

- (a) the audit and risk committee met three times and all members were present;
- (b) the nomination and remuneration committee met two times and all members were present; and
- (c) the related parties committee had two meetings and both members were present.

POLICIES, PRACTICES AND PROCEDURES

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

Diversity

Diversity of gender, ethnicity, skill, age, experience and beliefs are valued by SKY. SKY recognises the value of diversity and the organisational strength, problem-solving ability and innovative approach that it brings. The provision of equal opportunities for all employees is fundamental to the way in which SKY functions as a business.

SKY established a diversity policy during 2012 and has posted this on SKY's website, www.skytv.co.nz. SKY's measurable objectives for achieving gender diversity are that, each financial year, the board actively considers opportunities for a female director to join the board and that SKY's management compares the number of female and male employees at SKY to the previous financial year's figures to ensure that SKY is maintaining a strong level of female participation at all levels of the organisation, including officer level. As at 30 June 2013, there are six male directors on the board and there are no female directors compared to seven male directors and no female directors at 30 June 2012. The board has considered opportunities for a female director to join the board and is actively considering this matter at the date of this report. The board hopes to make an announcement about this in the near future. In terms of diversity across the organisation, SKY's management continues to monitor the ratio of female to male staff members.

The board considers that SKY's commitment to gender diversity is demonstrated through almost equal representation of female and male employees across SKY (47% women, 53% men as at 30 June 2013). Strong female participation is reflected at all levels of the organisation including officers with an average of 43% female representation as at 30 June 2013 compared to 39% at 30 June 2012.

Treasury Policy

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

- foreign exchange risk management;
- interest rate risk management;
- borrowing, liquidity and funding risk;
- cash management;

- counterparty credit risk;
- operational risk and dealing procedures; and
- reporting and performance management.

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

Communication and Disclosure Policy

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

Remuneration Policy and Performance Monitoring

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

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

Regulatory Policy

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

Health and Safety

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

Insider Trading Policy

SKY has a formal policy in relation to insider trading which is set out in SKY's policies manual and included in its code of conduct. The policy provides that directors, officers and employees of SKY may not buy or sell securities in SKY, nor may they tip others, while in the possession of inside information. SKY's policy affirms the law relating to insider trading contained in the Securities Markets Act 1988 and complies with ASX Listing Rule 12.9.

Code of Conduct

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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:

Directors, Chairman and Board Committees (ASX Recommendation 2.2, 2.6 and 8.2; NZX Recommendation 2.3, 2.4, 2.6, 3.7 and 3.10):

The board determined on 10 April 2013 that the chairman, Peter Macourt, qualified as an independent director given that he had ceased being a director and employee of News Limited in December 2011, and as of 4 March 2013 News Limited is no longer a substantial shareholder of SKY. From 10 April 2013 onwards, SKY has complied with the recommendations relating to having an independent chairman.

While, prior to 10 April 2013, SKY did not have an independent chairman, the board considered that it was not necessary for the chairman to be independent because of the large number of shares held by News Limited. Also, the board was comfortable that the minority shareholder interests were protected because the majority of the board was independent, and the board complied with all of the NZX Listing Rule requirements for independent directors. The related-parties committee, made up solely of independent directors, has operated throughout the year to 30 June 2013 and reviews significant proposed related-party transactions to ensure that they are conducted on an arm's-length basis.

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

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

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

Formal Code of Conduct and Ethics (ASX Recommendation 3.1; NZX Recommendation 1.2):

SKY's code of conduct does not outline how breaches of its requirements are investigated or sanctioned as it is the board's view that this would be addressed on a case-by-case basis depending on the nature and seriousness of the breach.

Disclosure of Executive Remuneration (ASX Recommendation 8.3):

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 this ASX recommendation is appropriate for SKY.

Performance-Based Equity Security Compensation Plan and Performance Evaluation (ASX Recommendation 2.5; NZX Recommendation 2.7, 2.9, 3.3, 3.9 and 3.12):

SKY did not provide a performance-based equity security compensation plan, nor were the directors encouraged to invest a portion of their remuneration in purchasing SKY's equity securities, in the year to 30 June 2013.

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

Confirmation of Financial Statements (ASX Recommendation 7.3):

Each year SKY's chief executive officer and chief financial officer confirm in a written statement to the board that the financial statements are true and correct, although the wording of that statement is not exactly the same as the wording set out in section 295A of the Australian Corporations Act 2001.

Attending Audit and Risk Committee Meetings (NZX Recommendation 3.4):

SKY considers it appropriate that any director (whether or not a member of the committee) may attend audit and risk committee meetings without invitation.

Public Disclosure/Website Disclosure (Various ASX and NZX Recommendations):

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

INTERESTS REGISTER

DISCLOSURES OF INTEREST – GENERAL NOTICES

Directors have given general notices disclosing interests in the various entities pursuant to section 140(2) of the Companies Act 1993. Those notices which remain current as at 30 June 2013 are as follows: ⁽¹⁾

Director	Entity	Relationship
John Fellet	Media Finance Limited	Director
	Outside Broadcasting Limited	Director
	Cricket Max Limited	Director
	Igloo Limited	Director
John Hart	Bayley Corporation Limited	Director
	Global Rugby Enterprises Limited and subsidiaries of Global Rugby Enterprises Limited	Director/Shareholder
	NZPGA PRO-AM Championship Limited	Director
	Professional Golfers Association of New Zealand	Board Member
Peter Macourt	Virtus Health Limited	Director/Chairman
Humphry Rolleston	Asset Management Limited	Director/Shareholder
	Infratil Limited	Director
	Matrix Security Group Limited	Director/Shareholder
	Mercer Group Limited and various subsidiaries of Mercer Group Limited	Director/Shareholder
	Property for Industry Limited	Director
	Media Metro NZ Limited	Director/Shareholder
	Murray & Company Limited	Director/Shareholder/ Chairman
John Waller	Fonterra Co-Operative Group Limited	Director
	Haydn & Rollett Limited	Director
	Alliance Group Limited	Director
	BNZ Investments Limited	Director
	Bank of New Zealand	Director/Chairman
	National Australia Bank Limited	Director/Shareholder
	National Equities Limited	Director
	Yealands Wine Group Limited	Director
	Eden Park Trust Board	Chairman
	Property for Industry Limited	Director/Shareholder
	Rugby Sales New Zealand Limited and related entities	Director
	Donaghys Limited	Director/Shareholder

(1) As at 30 June 2013: (a) Robert Bryden has not disclosed any interests pursuant to section 140(2) of the Companies Act 1993; and (b) the following entries in the Interests Register have been removed: Michael Miller's entries by virtue of the fact that he ceased being a director on 4 March 2013 .

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 year to 30 June 2013.

DISCLOSURES OF INTEREST – PARTICULAR TRANSACTIONS/USE OF COMPANY INFORMATION

During the year to 30 June 2013, in relation to SKY:

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

DISCLOSURES OF RELEVANT INTERESTS IN SECURITIES

During the year to 30 June 2013, in relation to SKY's directors and officers:

- one initial disclosure was made by an officer in the Interests Register under section 19T(2) of the Securities Markets Act 1988. This disclosure was made by Matthew Orange and related to the acquisition of 1,000 ordinary shares in SKY by the Amrit Family Trust (of which Mr Orange is a trustee and beneficiary) through the NZX for total consideration of \$4,960 on 6 March 2013;
- no initial or continuous disclosures were made by directors 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.

INSURANCE AND INDEMNITIES

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

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

SKY SUBSIDIARIES' INTEREST REGISTERS

The directors of subsidiaries have given notices disclosing interests in the various entities pursuant to section 140 of the Companies Act 1993. Those notices which remain current as at 30 June 2013 are set out below:

Screen Enterprises Limited: The directors of Screen Enterprises Limited have each given a general notice disclosing interests arising from being appointed as a director by the shareholders of Screen Enterprises, being SKY (in the case of Angus Swainson) and Westside Media Limited (in the case of Timothy MacAvoy and Bryan Mogridge). Bryan Mogridge also recorded interests arising from being a director and shareholder of Westside Media Limited.

Outside Broadcasting Limited: John Fellet has made a general disclosure in the Interests Register of Outside Broadcasting Limited that he is a director and shareholder of SKY, and Jason Hollingworth has made a general disclosure that he is an officer of SKY.

SKY DMX Music Limited: Martin Wrigley and Grant McKenzie have each given a general disclosure notice disclosing interests arising from being senior employees of SKY, and in Martin Wrigley's case, a shareholder of SKY.

Igloo Limited: John Fellet, Jason Hollingworth, Michael Watson, Angus Swainson and Matthew Orange gave notices (both general and in relation to certain documents signed in setting up the joint venture with TVNZ) disclosing interests arising from being employees of SKY and, in John Fellet's case, a director and shareholder of SKY. Rodney Parker, Brent McNulty and Thorkild Bayer gave notices (both general and in relation to certain documents signed in setting up the joint venture with SKY) disclosing interests arising from being employees of TVNZ. Kevin Kenrick gave a general notice disclosing his interest arising from being an employee of TVNZ and being a director of Auckland Regional Television Limited, Avalon Studios Limited, Freesat Limited, Freesat Television Limited, Freeview Television Limited, Horizon Pacific Television Limited, Nzoom Limited, TVNZ International Limited and TVNZ Satellite Services Limited. Rodney Parker also gave a general notice disclosing his interests arising from being a director of those companies, in addition to Hybrid Television Services (ANZ) Pty Limited and Hybrid Television Services (New Zealand) and being the chair of thinkTV.

COMPANY AND BONDHOLDER INFORMATION

DIRECTORS HOLDING AND CEASING OFFICE

Peter Macourt

Robert Bryden

John Fellet

John Hart

Michael Miller ⁽¹⁾

Humphry Rolleston

John Waller

(1) Michael Miller resigned as a director on 4 March 2013.

SUBSIDIARIES

At 30 June 2013, SKY had the following subsidiary companies: SKY DMX Music Limited, Screen Enterprises Limited, Cricket Max Limited, Media Finance Limited, Outside Broadcasting Limited and Igloo Limited. SKY initially contributed \$12,750,000 to the Igloo joint venture and had a 51% interest with TVNZ owning the other 49%, having contributed \$12,250,000. In June 2013, SKY contributed a further \$5,750,000 bringing its interest to 66% with 34% interest being held by TVNZ.

During the year to 30 June 2013, SKY DMX Music Limited operated the SKY DMX music business, Screen Enterprises Limited acted as agent for the Screen Enterprises joint venture, Outside Broadcasting Limited provided mobile on-site broadcasting facilities and services and Igloo Limited delivered a low-cost pay television service over a digital terrestrial network and via broadband. None of the other subsidiaries traded during that year.

DIRECTORS OF SUBSIDIARIES

At 30 June 2013, the directors of SKY DMX Music Limited were Grant McKenzie, Martin Wrigley, Ben Gujral and Steven Hughes. The directors of Screen Enterprises Limited were Timothy MacAvoy, Bryan Mogridge and Angus Swainson. The directors of Igloo Limited were John Fellet, Jason Hollingworth, Michael Watson, Angus Swainson, Matthew Orange, Rodney Parker, Brent McAnulty, Thorkild Bayer, and Kevin Kerrick (Eric Kearly ceased being a director on 22 December 2012 and Brent McAnulty was re-appointed as a director on 23 December 2012). The directors of Outside Broadcasting Limited were John Fellet and Jason Hollingworth (Jason Hollingworth was appointed a director on 21 February 2013). 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 94 or, in the case of John Fellet, his remuneration is disclosed below under the heading "Remuneration of Directors".

STATEMENT OF DIRECTORS' INTERESTS

For the purposes of NZX Listing Rule 10.5.5(c), the following table sets out the equity securities (shares in SKY) in which each director had a relevant interest as at 30 June 2013:

Relevant Interests	Shares
Peter Macourt	–
Robert Bryden	–
John Fellet	116,000
John Hart	25,000
Humphry Rolleston	–
John Waller	–

REMUNERATION OF DIRECTORS

Directors' remuneration and value of other benefits received by directors of SKY during the year 1 July 2012 to 30 June 2013 were as follows:

Name	Total Remuneration
Peter Macourt	\$110,000
Robert Bryden	\$89,500
John Fellet ⁽¹⁾	\$1,685,000
John Hart	\$82,000
Michael Miller ⁽²⁾	\$45,445
Humphry Rolleston	\$82,000
John Waller	\$90,000

(1) John Fellet is also SKY's chief executive officer and a director of Cricket Max Limited, Media Finance Limited, Outside Broadcasting Limited and Igloo Limited. He did not receive any directors' fees during the above period. His remuneration, as specified above, comprises salary and performance-based remuneration.

(2) Michael Miller resigned as a director on 4 March 2013.

SUBSTANTIAL SECURITY HOLDERS

According to notices given to SKY under the Securities Markets Act 1988, the following persons were substantial security holders in SKY as at 15 August 2013:

Entity	Securities
JCP Investment Partners Limited	31,087,630
Hyperion Asset Management Limited	24,031,977
BNP Paribas Investment Partners (Australia) Limited	21,331,708

The total number of issued voting securities of SKY as at 15 August 2013 was 389,139,785.

COMPANY AND BONDHOLDER INFORMATION (CONTINUED)

TWENTY LARGEST SHAREHOLDERS AS AT 15 AUGUST 2013

Holder Name	Holding	Percentage (to 2 d.p.)
National Nominees Limited	67,499,816	17.35
JP Morgan Nominees Australia Limited	43,871,580	11.27
HSBC Custody Nominees (Australia) Limited	27,838,364	7.15
HSBC Nominees (New Zealand) Limited	26,291,633	6.76
JPMorgan Chase Bank NA	24,371,029	6.26
Custodial Services Limited	15,016,968	3.86
Accident Compensation Corporation	14,137,673	3.63
Citibank Nominees (New Zealand) Limited	11,401,447	2.93
BNP Paribas Nominees (NZ) Limited	11,020,098	2.83
National Nominees New Zealand Limited	10,690,617	2.75
Premier Nominees Ltd	10,587,371	2.72
Citicorp Nominees Pty Limited	8,921,769	2.29
Tea Custodians Limited	8,709,084	2.24
BNP Paribas Noms Pty Limited	8,530,987	2.19
New Zealand Superannuation Fund Nominees Limited	7,125,323	1.83
RBC Investor Services Australia Nominees Pty Limited	5,563,276	1.43
UBS Nominees Pty Limited	5,176,508	1.33
FNZ Custodians Limited	4,951,238	1.27
Forsyth Barr Custodians Limited	3,737,773	0.96
Investment Custodial Services Limited	2,582,432	0.66

DISTRIBUTION OF ORDINARY SHARES AND SHAREHOLDINGS AS 15 AUGUST 2013

	No. of shareholders	Percentage (to 2 d.p.)	No. of shares	Percentage (to 2 d.p.)
1 – 1,000	3,179	29.69	2,136,307	0.55
1,001 – 5,000	5,276	49.27	14,024,201	3.61
5,001 – 10,000	1,345	12.56	10,168,572	2.61
10,001 – 100,000	811	7.57	19,352,735	4.97
100,001 and over	98	0.91	343,457,970	88.26
Total	10,709	100.00	389,139,785	100.00

NON-MARKETABLE PARCELS OF SHARES

As at 15 August 2013, 194 shareholders in SKY had non-marketable parcels of shares for the purposes of ASX Listing Rule 4.10.8.

OTHER INFORMATION

For the purposes of ASX Listing Rule 4.10.14, 4.10.18 and 4.10.21, as at 15 August 2013:

- SKY had no restricted securities or securities subject to voluntary escrow on issue;
- there was no on-market buy back; and
- SKY was not subject to section 611 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 15 AUGUST 2013

	No. of bondholders	Percentage (to 2 d.p.)	No. of bonds	Percentage (to 2 d.p.)
1 – 1000	–	–	–	–
1,001 – 5,000	204	8.28	1,020,000	0.51
5,001 – 10,000	518	21.03	4,974,500	2.49
10,001 – 100,000	1581	64.19	57,532,500	28.77
100,001 and over	160	6.50	136,473,000	68.23
Total	2,463	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 the right to attend or vote at shareholders' meetings.

COMPANY AND BONDHOLDER INFORMATION (CONTINUED)

EMPLOYEE REMUNERATION

The number of employees or former employees of SKY and its subsidiaries (excluding directors of SKY but including employees of SKY holding office as directors of subsidiaries, other than the chief executive officer⁽¹⁾) whose remuneration and benefits was within specified bands for the year to 30 June 2013 is as follows:

Remuneration \$	Number of Employees
100,000 – 110,000	57
110,001 – 120,000	29
120,001 – 130,000	21
130,001 – 140,000	11
140,001 – 150,000	11
150,001 – 160,000	6
160,001 – 170,000	13
170,001 – 180,000	5
180,001 – 190,000	3
190,001 – 200,000	4
200,001 – 210,000	3
210,001 – 220,000	2
220,001 – 230,000	4
240,001 – 250,000	2
250,001 – 260,000	2
290,001 – 300,000	1
310,001 – 320,000	1
340,001 – 350,000	2
360,001 – 370,000	1
370,001 – 380,000	1
380,001 – 390,000	1
420,001 – 430,000	1
440,001 – 450,000	2
460,001 – 470,000	1
630,001 – 640,000	1
Total	185

(1) The remuneration of SKY's chief executive John Fellet is not included in the above table as he is also a director of SKY. His remuneration is disclosed under the heading "Remuneration of Directors" on page 91.

DONATIONS

During the year 1 July 2012 to 30 June 2013, SKY made donations totalling \$353,000. SKY's subsidiaries did not make any donations.

AUDITORS

The auditors of SKY and its subsidiaries were PricewaterhouseCoopers. The amount paid to PricewaterhouseCoopers by SKY and its subsidiaries in the year to 30 June 2013 for statutory audit services and for other assurance services was:

	Statutory audit services (000)	Other assurance services (000)
SKY	200	28
SKY DMX Music Limited	10	–
Igloo Limited	33	–
Total	243	28

SKY's other subsidiaries did not pay PricewaterhouseCoopers any fees.

WAIVERS AND INFORMATION

CURRENT AND ONGOING WAIVERS

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

- (a) a waiver to permit SKY to lodge its half yearly and final reports in the form of an NZX Appendix 1 instead of an ASX Appendix 4D and ASX Appendix 4E, on the condition that SKY provides any additional information required by the ASX Appendices as an annexure to the NZX Appendix 1;
- (b) a waiver from ASX Listing Rule 6.10.3 to the extent necessary to permit SKY to set the "specified time" to determine whether a security holder is entitled to vote at a shareholders' meeting in accordance with the requirements of relevant New Zealand legislation;
- (c) a waiver from ASX Listing Rule 15.7 to permit SKY to provide announcements simultaneously to both ASX and NZX;
- (d) a waiver from ASX Listing Rule 14.3 to the extent necessary to allow SKY to receive director nominations between the date three months and the date two months before the annual meeting;
- (e) confirmation that SKY is not required to lodge accounts for the last three full financial years in accordance with ASX Listing Rule 1.3.5(a) in connection with its application for admission and quotation;
- (f) confirmation that the rights attaching to SKY shares set out in SKY's constitution are appropriate and equitable for the purpose of ASX Listing Rule 6.1 and comply with ASX Listing Rule 2.1;
- (g) confirmation that ASX will accept financial accounts prepared in accordance with New Zealand GAAP and New Zealand Auditing Standards, and denominated in New Zealand dollars;
- (h) confirmation that SKY can provide substantial holder information provided to it under the New Zealand Securities Markets Act 1988; and
- (i) confirmation that SKY's structure and operations are appropriate for an ASX-listed entity for the purposes of ASX Listing Rule 1.1 (condition 1).

EXERCISE OF NZX'S POWERS UNDER NZX LISTING RULE 5.4.2

At 9.58am (New Zealand time) on 19 June 2013, SKY submitted an announcement to the NZX Market Announcements Platform. Due to a clerical error, that announcement was not on SKY letterhead or attributed to a SKY officer. At NZX's request, SKY revised the announcement, and resubmitted it 22 minutes later (at 10.20am New Zealand time). The NZX imposed a two-minute trading halt over SKY shares and bonds (from 10.20 am until 10.22am New Zealand time on 19 July 2013), until the corrected announcement was cleared by NZX and released. SKY was not aware of the fact that the trading halt had been imposed until it received notice from NZX on 2 July 2013.

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 Australian Corporations Act 2001 dealing with the acquisition of shares (such as substantial holdings and takeovers).
- 3. Limitations on the acquisition of the securities imposed by New Zealand law are as follows:
 - (a) In general, SKY securities are freely transferable and the only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand laws relating to takeovers, overseas investment and competition.
 - (b) The New Zealand Takeovers Code creates a general rule under which the acquisition of more than 20% of the voting rights in SKY or the increase of an existing holding of 20% or more of the voting rights in SKY can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, a partial takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances) or compulsory acquisition if a shareholder holds 90% or more of SKY shares.
 - (c) The New Zealand Overseas Investment Act 2005 (and associated regulations) regulates certain investments in New Zealand by overseas persons. In general terms, the consent of the New Zealand Overseas Investment Office is likely to be required where an 'overseas person' acquires shares or an interest in shares in SKY that amount to more than 25% of the shares issued by SKY or, if the overseas person already holds 25% or more, the acquisition increases that holding.
 - (d) The New Zealand Commerce Act 1986 is likely to prevent a person from acquiring SKY shares if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in a market.

SHARE MARKET AND OTHER INFORMATION

NEW ZEALAND

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

NZX Limited

Level 2, NZX Centre
11 Cable Street
Wellington, New Zealand

Mailing address:

P.O. Box 2959
Wellington, New Zealand

Tel: 64 4 472 7599 **Fax:** 64 4 496 2893;

Website: www.nzx.com

AUSTRALIA

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

ASX Limited

Exchange Centre
20 Bridge Street, Sydney
NSW 2000, Australia

Mailing address:

P.O. Box H224
Australia Square, Sydney
NSW 1215, Australia

Tel: 61 2 9338 0000 **Fax:** 61 2 9227 0885

Website: www.asx.com.au

FINANCIAL CALENDAR

2012/2013 Financial year-end	30 June 2013
2012/2013 Full-year results announced	23 August 2013
Next annual meeting	24 October 2013
2013/2014 Half-year results announced	February 2014
2013/2014 Financial year-end	30 June 2014
2013/2014 Full-year results announced	August 2014

ANNUAL MEETING

The next annual meeting of Sky Network Television Limited will be held at the Langham Hotel, 83 Symonds Street, Auckland, New Zealand, on 24 October 2013, commencing at 2.00 pm.

DIRECTORY

REGISTRARS

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

NEW ZEALAND ORDINARY SHARE REGISTRAR

Computershare Investor Services Limited

Level 2, 159 Hurstmere Road
Takapuna, North Shore City 0622
New Zealand

Mailing address:

Private Bag 92119
Auckland Mail Centre
Auckland 1142, New Zealand

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

Email: enquiry@computershare.co.nz

AUSTRALIAN BRANCH REGISTER

Computershare Investor Services Pty Limited

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

Freephone: 1300 850 505 (within Australia)

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

Email: enquiry@computershare.co.nz

BONDHOLDER TRUSTEE

The New Zealand Guardian Trust Company Limited

Level 7, Vero Centre, 48 Shortland Street
Auckland, New Zealand

Mailing address:

P.O. Box 1934
Auckland, New Zealand

Tel: 64 9 377 7300 **Fax:** 64 9 377 7470

Email: web.corporatetrusts@nzgt.co.nz

DIRECTORS

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

EXECUTIVES

John Fellet:	Director and Chief Executive Officer
Jason Hollingworth:	Chief Financial Officer and Company Secretary
Greg Drummond:	Director of Broadcast Operations
Travis Dunbar:	Director of Programming – Movies, Factual and G.E.
Martin Enright:	Director of Content Acquisitions
Charles Ingley:	Director of Technology
Megan King:	Director of Content – Strategy, Planning and Delivery
Richard Last:	Director of Sport
Rawinia Newton:	Director of Advertising
Cathryn Oliver:	Chief of Staff
Mike Watson:	Director of Marketing
Kirsty Way:	Director of Corporate Communication
Martin Wrigley:	Director of Operations

NEW ZEALAND REGISTERED OFFICE

10 Panorama Road, Mt Wellington,
Auckland 1060

Tel: 64 9 579 9999 **Fax:** 64 9 579 8324

Website: www.sky.co.nz

AUSTRALIAN REGISTERED OFFICE

c/- Allens Arthur Robinson Corporate Pty Limited

Level 28, Deutsche Bank Place
Corner Hunter and Philip Streets
Sydney, NSW 2000;

Tel: 61 2 9230 4000 **Fax:** 61 2 9230 5333

AUDITORS TO SKY

PricewaterhouseCoopers

PricewaterhouseCoopers Tower,
188 Quay Street, Auckland 1010, New Zealand

Tel: 64 9 355 8000 **Fax:** 64 9 355 8001

SOLICITORS TO SKY

Buddle Findlay

PricewaterhouseCoopers Tower,
188 Quay Street, Auckland 1010, New Zealand

Tel: 64 9 358 2555 **Fax:** 64 9 358 2055

SKY CHANNELS

As at 30 June 2013

TYPES OF CHANNELS

Basic Channels	41	Free-to-air Channels	14	PPV Movie Channels	11	Sport Channels	7
Specialist Channels	6	PPV Event Channels	1	Movie Channels	6	Radio Channels	8
PPV Adult Channels	3	Interactive Channels	3	Audio Music Channels	14	Total	114

41 BASIC CHANNELS



7 SPORT CHANNELS



6 MOVIE CHANNELS



3 INTERACTIVE CHANNELS



14 FREE-TO-AIR CHANNELS



6 SPECIALIST CHANNELS



8 RADIO CHANNELS



OTHER



14 Audio Music Channels



1 PPV Event Channel



11 PPV Movie Channels

3 PPV Adult Channels





COME WITH US



GEORGE MACFARLANE AS THE MANAGER STRATEGY AND PLANNING

Fanatical about SoHo

"When you play a game of thrones you win or you die. There is no middle ground." Cersei Lannister, *Game of Thrones*, SoHo. OK, we're not quite that extreme at SKY, but we are definitely in it to win it! I thrive on the challenges our competitors bring, keeping ahead of the ever-changing technology, and exploring the world of possibilities.

COME WITH US







**SKY NETWORK
TELEVISION LIMITED**

PO Box 9059
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Auckland 1149
New Zealand

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New Zealand

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