Directors' report – Financial and operating review

Introduction

The following discussion and analysis is based on, and should be read in conjunction with, the consolidated financial statements, including the related notes, included within this Annual Report. The consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB and as adopted by the EU.

The Group maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal 2012, this date was 1 July 2012, this being a 52 week year (fiscal year 2011: 3 July 2011, 53 week year). For convenience purposes, the Group continues to date its consolidated financial statements as at 30 June.

A reconciliation of non-GAAP measures is set out on page 128 and a detailed reconciliation of profit from continuing operations to adjusted profit from continuing operations is included in note 10 to the consolidated financial statements.

Overview and recent developments

During the current year, total revenue from continuing operations increased by 3% to £6,791 million, compared to the year ended 30 June 2011 ("the prior year"). Adjusted operating profit from continuing operations for the current year increased by 14% to £1,223 million, resulting in an adjusted operating profit margin of 18%, compared to 16% in the prior year. Reported operating profit from continuing operations was £1,243 million, compared to £1,073 million in the prior year.

Adjusted profit for the year from continuing operations was £875 million, generating adjusted basic earnings per share from continuing operations of 50.8 pence, compared to an adjusted profit from continuing operations of £725 million and adjusted basic earnings per share from continuing operations of 41.6 pence in the prior year. Reported profit for the year was £906 million, generating basic earnings per share of 52.6 pence, compared to a profit of £810 million and basic earnings per share of 46.5 pence in the prior year.

At 30 June 2012, the total number of TV Customers in the UK and Ireland was 10,288,000, representing a net increase of 101,000 TV Customers in the current year. Including our standalone home communications services, the total number of customers was 10,606,000 representing a net increase of 312,000 customers in the current year.

At 30 June 2012, the total number of HD customers was 4,343,000, representing 42% of total TV Customers. This represents growth in HD customers of 14% in the current year. The number of Multiroom customers also continued to grow, increasing by 152,000 in the current year to 2,402,000; 23% penetration of total TV Customers. Wholesale subscribers to the Group's channels were 4,340,000 compared to 4,382,000 in the prior year.

Churn for the current year was 10.2% which is broadly in line with the prior year (2011: 10.4%) .

Sky Broadband continues to grow strongly, increasing by 666,000 customers in the current year to 4,001,000. During the year we unbundled 388 additional exchanges, increasing our footprint to approximately 83% network coverage. The number of Sky Talk customers reached 3,768,000, representing an increase of 667,000 in the current year. The number of Line Rental customers increased by 883,000 in the current year to 3,563,000.

Corporate

The Board of Directors is proposing a final dividend of 16.2 pence per ordinary share, resulting in a total dividend for the year of 25.4 pence, representing growth of 9% over the prior year full year dividend. The ex-dividend date will be 24 October 2012 and, subject to shareholder approval at the Company's Annual General Meeting ("AGM"), the dividend will be paid on 16 November 2012 to shareholders of record on 26 October 2012.

On 13 July 2011, News Corporation announced that it no longer intended to make an offer for the entire issued and to be issued share capital of the Company not already owned by News Corporation. A break fee of £39 million was received during the year which exceeded all of the Group's direct costs associated with the proposal.

On 3 November 2011, the Group re-financed the existing £750 million Revolving Credit Facility ("RCF") with a £743 million facility due to mature on 31 October 2016, syndicated across 10 counterparty banks.

On 29 November 2011, the Company's shareholders approved a resolution at the AGM for the Company to return £750 million of capital to shareholders via a share buy-back programme.

The Company has entered into an agreement with News Corporation under which, following any market purchases of shares by the Company, News Corporation will sell to the Company sufficient shares to maintain its percentage shareholding at the same level as applied prior to those market purchases. The price payable to News Corporation is the price payable by the Company in respect of the relevant market purchases. The effect of the agreement is to provide that there will be no change in News Corporation's economic or voting interests in the Company as a result of the share buy-back programme.

Following approval and up to 30 June 2012, the Company repurchased for cancellation 78,387,718 ordinary shares for a total consideration of £546 million which included stamp duty and commission of £3 million. The closing share count at the end of the financial year was 1,674,454,881.

On 25 July 2012, the Board agreed to seek the necessary approvals to return a further £500 million of capital to shareholders via a share buy-back programme. Shareholder approvals will be sought at the Company's AGM on 1 November 2012. The Company has entered into an agreement with News Corporation under substantially the same terms as those agreed for the share buy-back programme approved at the Company's AGM on 29 November 2011. The agreement is conditional on the appropriate shareholder approvals being granted. The effect of the agreement is to provide that there will be no change in News Corporation's economic or voting interests in the Company as a result of the share buy-back programme.

Operating results

Revenue

Our revenue is principally derived from retail subscription, wholesale fees, advertising and installation, hardware and servicing.

Our retail subscription revenue is a function of the number of customers (residential and commercial) including those subscribing to a TV product or a standalone home communications customer, the mix of services subscribed to and the rates charged. Revenue from the provision of pay-per-view services, which include Sky Box Office and Sky Store, is included within retail subscription revenue.

Our wholesale subscription revenue, which is revenue derived from the supply of Sky Channels to cable, DTT and Internet Protocol Television ("IPTV") platforms, is a function of the number of subscribers on the relevant operators' platforms, the mix of services subscribed to and the rates charged to those wholesale operators.

Our advertising revenue is mainly a function of the number of commercial impacts, defined as individuals watching one thirty second commercial on our wholly owned channels, together with the quality of impacts delivered and overall advertising market conditions. Advertising revenue also includes net commissions earned by us from the sale of advertising on those third party channels for which we act as sales representative.

Installation, hardware and service revenue includes income from set-top box sales and installation, service calls and warranties.

Other revenue principally includes income from technical platform services, Sky Bet, third party set-top box sales and public access WiFi services.

Operating expense

Our operating expense arises from programming, direct networks, marketing, subscriber management and supply chain, transmission, technology and fixed networks and administration costs.

Programming costs include payment for: (i) licences of television rights from certain US and European film licensors including the results of foreign exchange programme hedges; (ii) the rights to televise certain sporting events and sports production costs; (iii) other programming acquired from third party licensors; (iv) the production and commissioning of original programming; and (v) the rights to retail the Sky Distributed Channels to TV Customers. The methods used to amortise programming inventories are described in section (v) of note 1 to the consolidated financial statements "Critical accounting policies and the use of judgment".

Under our current pay television agreements with the US major movie studios, we generally pay a US dollar-denominated licence fee per current movie, calculated on a per movie subscriber basis. During the year, we managed our US dollar/pound sterling exchange risk primarily by the purchase of forward foreign exchange contracts and currency options (collars) for up to five years ahead (see note 24 to the consolidated financial statements).

Under the DTH distribution agreements for the Sky Distributed Channels, we generally pay a monthly fee per subscriber for each channel, the fee in some cases being subject to periodic increases, or we pay a fixed fee or no such fee at all. A number of our distribution agreements are subject to minimum guarantees, which are linked to the proportion of the total number of TV Customers receiving specific packages. Our costs for carriage of the Sky Distributed Channels will (where a monthly per subscriber fee is payable) continue to be dependent on changes in the subscriber base, contractual rates, viewing performance and/or the number of channels distributed.

Direct network costs include costs directly related to the supply of broadband and telephony services to our customers. This includes call costs, monthly wholesale access fees and other variable costs associated with our network.

Marketing costs include: (i) above-the-line spend (which promotes our brand and range of products and services generally); (ii) below-the-line spend (which relates to the growth, retention and maintenance of the customer base, including commissions payable to retailers and other agents for the sale of subscriptions and the costs of our own direct marketing to our existing and potential customers); and (iii) the cost of providing and installing digital satellite reception and home communications equipment for new and existing customers in excess of the relevant amount actually received from customers for such equipment and installation.

Subscriber management and supply chain costs include customer management costs, supply chain costs and associated depreciation. Customer management costs are those associated with managing new and existing customers, including customer handling and customer bad debt costs. Supply chain costs relate to systems and infrastructure and the installation costs

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of satellite reception equipment and home communications equipment and installation costs of new products purchased by customers such as HD and Multiroom set-top boxes, including smartcard costs. Customer management costs and supply chain costs are largely dependent on customer levels and new customer additions in the year.

Transmission, technology and fixed network costs include costs that are dependent upon the number and annual cost of the satellite transponders that we use. Our transponder capacity is primarily supplied by the SES Astra and Eutelsat satellites. Transmission, technology and fixed network costs also include the costs associated with transmission, uplink, home communications connectivity costs and the costs of our new broadcasting facility, Sky Studios.

Administration costs include depreciation, channel management, facilities, other central operational overheads and the expense recognised for awards granted under our employee share option schemes.

For certain trend information related to our revenue and operating expense, see the "Trends and other information" section below.

2012 fiscal year compared to 2011 fiscal year

Revenue

The Group's revenue from continuing operations can be analysed as follows:

	2012		2011	
For the year to 30 June	£m	%	£m	%
Retail subscription	5,593	82	5,471	83
Wholesale subscription	351	5	323	5
Advertising	440	7	458	7
Installation, hardware and service	98	1	112	1
Other	309	5	233	4
	6,791	**100**	**6,597**	**100**

To provide a more relevant presentation, management has reclassified Sky Player and Sky Mobile revenue from other revenue to retail subscription revenue of £11 million in the current period and £16 million in the comparative period.

Group revenue increased to £6,791 million (2011: £6,597 million), up 3% year on year as the growth in customers and products more than offset headwinds in advertising and Sky Business.

Retail subscription revenue increased to £5,593 million (2011: £5,471 million) as a result of strong product growth over the year and a larger customer base more than offsetting our decision to freeze subscription prices.

Wholesale subscription revenue increased by 9% to £351 million (2011: £323 million) due to increased take up of the Group's channels and their HD versions across other platforms, the launch and success of the new Formula 1 channel and new carriage deals from the first quarter of the fiscal year.

Advertising revenue was 4% lower year on year at £440 million (2011: £458 million) as a result of headwinds impacting the sector and higher payments to our partner channels for their strong performance.

Installation, hardware and service revenue of £98 million was lower year on year (2011: £112 million), the decrease reflecting improved product reliability and right-first-time installation rates, in the context of continued growth in customers and product penetration.

Other revenue increased by 33% to £309 million (2011: £233 million), including £52 million from the sale of set-top boxes to Sky Italia, for which the corresponding cost is recognised in subscriber management and supply chain costs. Excluding these sales, other revenue was up by 22% benefiting from continued strong performance in Sky Bet and the consolidation of "The Cloud" (acquired on 23 February 2011).

Operating expense

The Group's operating expense from continuing operations and excluding adjusting items (as detailed on page 36) can be analysed as follows:

	2012		2011	
For the year to 30 June	£m	%	£m	%
Programming	2,298	42	2,188	39
Direct networks	676	12	584	11
Marketing	1,064	19	1,220	22
Subscriber management and supply chain	621	11	596	11
Transmission, technology and fixed networks	395	7	395	7
Administration	514	9	541	10
	5,568	**100**	**5,524**	**100**

Direct Costs

Programming costs increased by 5% to £2,298 million (2011: £2,188 million) reflecting our continued investment in high quality content. Entertainment costs increased by £70 million as a result of a full twelve months of Sky Atlantic programming, alongside increased investment in original UK content. Partner channel costs were £30 million higher as a result of adding seven HD channels in the year and 14% growth in HD customers year on year. Sports costs were £12 million higher year on year with the first time inclusion of the Formula 1 channel being partly offset by lower costs for cricket, golf and boxing due to the absence of biennial and other events such as the Ryder Cup and the Haye Klitschko fight that were included in the comparative year. Movies costs were flat year on year.

Direct network costs increased by 16% to £676 million (2011: £584 million), with 24% growth in home communications products partially offset by our continued progress in migrating customers to our fully unbundled network, thereby reducing the per customer cost.

Other Operating Costs

Marketing costs (excluding adjusting items) were 13% lower year on year at £1,064 million (2011: £1,220 million) with lower cost route-to-market sales, less above-the-line spend and fewer gross additions. In addition to savings from the closure of the Sky customer magazine, above-the-line costs were £25 million lower year on year.

Subscriber management and supply chain costs increased by £25 million year on year to £621 million (2011: £596 million). The largest contributor to the increase was the cost of sales of set-top boxes to Sky Italia (with corresponding revenue recorded within other revenue). Excluding the impact from these box sales, in both the current and comparative year, subscriber management and supply chain costs were down in absolute terms year on year; a good result in the context of a growing customer base and a 12% increase in the sale of total products year on year.

Transmission, technology and fixed network costs were flat at £395 million (2011: £395 million) as a result of favourable negotiations with suppliers and improved broadcasting efficiency due to the move to tapeless production within Sky Studios.

Administration costs (excluding adjusting items) fell by £27 million to £514 million (2011: £541 million) helped by a lower non-cash IFRS 2 'Share-based payment' charge and associated National Insurance costs than in the prior year.

Operating profit and operating margin

Adjusted operating profit from continuing operations increased by 14% to £1,223 million in the current year, as a result of strong growth in subscription revenue and cost efficiencies in our operating expenditure. Adjusted operating margin from continuing operations (calculated as total revenue less all operating expense as a percentage of total revenue) for the current year was 18%, compared to 16% in the prior year.

Reported operating profit from continuing operations increased by 16% to £1,243 million in the current year.

Joint ventures and associates

Joint ventures are entities in which we hold a long-term interest and share control under a contractual arrangement with other parties. Our equity share of the net operating results from joint ventures and associates increased by £5 million to £39 million in the current year. Included in this amount is a profit on disposal of a joint venture of £7 million, arising from the sale of our investment in Chelsea Digital Media Limited.

Investment income and finance costs

Investment income from continuing operations increased by £9 million to £18 million in the current year. This was primarily due to higher cash balances during the year, higher rates of return and the receipt of dividend income from ITV.

Finance costs from continuing operations were flat at £111 million (2011: £111 million), after the inclusion of a facility fee write-off of £5 million relating to the previous RCF. Finance costs have decreased by £5 million on an underlying basis predominantly due to reduced costs associated with the new RCF.

Finance costs from continuing operations included £19 million of non-cash fair value gains on derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness, an increase of £1 million on the prior year (2011: gain of £18 million).

Profit on disposal of available-for-sale investment

In the prior year, on 5 April 2011, the Group sold its available-for-sale investment in Shine for a maximum consideration of £36 million, of which £31 million has been received to date. The remaining consideration is contingent on certain post transaction criteria and is currently held in escrow. At the date of disposal, the Group estimated the fair value of the contingent consideration to be £4 million and recorded a profit on disposal of £9 million, being the excess of the recognised consideration above the carrying value of the shares.

Taxation

The total tax charge for continuing operations for the current year of £283 million (2011: £256 million) comprises a current tax charge of £270 million (2011: £263 million) and a deferred tax charge of £13 million (2011: credit of £7 million). The higher tax charge in the current year is primarily due to increased profit.

Discontinued operations

In the prior year, on 1 September 2010, the Group completed the sale of its business-to-business telecommunications operation, Easynet Global Services ("Easynet"), to Lloyds Development Capital ("LDC") for £100 million. Subsequent to this, an agreed working capital adjustment reduced total net consideration to £94 million.

Easynet represented a separate major line of business for the Group. As a result its operations were treated as discontinued for the year ended 30 June 2011. A single amount is shown on the face of the consolidated income statement comprising the post-tax result of discontinued operations and the post-tax profit recognised on the disposal of the discontinued operation.

A pre-tax profit of £62 million arose on the disposal of Easynet in the prior year being the net proceeds of disposal less the carrying amount of Easynet's net liabilities and attributable goodwill.

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Profit for the year and earnings per share

Profit for the year from continuing operations was £906 million, compared to £758 million in the prior year. The increase in profit was primarily due to growth in subscription revenue and cost efficiencies in our operating expenditure. Profit for the year including discontinued operations was £906 million, compared to £810 million in the prior year.

The Group's earnings per share are as follows:

	2012 pence	2011 pence
Earnings per share from profit for the year		
Basic		
Continuing operations	52.6	43.5
Discontinued operations	–	3.0
Total	52.6	46.5
Diluted		
Continuing operations	52.2	43.0
Discontinued operations	–	2.9
Total	52.2	45.9

In order to provide a measure of underlying performance, management has chosen to present an adjusted profit from continuing operations for the year which excludes items that may distort comparability. See note 10 to the consolidated financial statements for a detailed reconciliation between profit from continuing operations and adjusted profit from continuing operations for the year.

The Group's adjusted earnings per share from adjusted profit for the year from continuing operations are as follows:

	2012 pence	2011 pence
Basic	50.8	41.6
Diluted	50.4	41.1

Adjusting items

In the current year, reported operating profit from continuing operations of £1,243 million included a net benefit of £20 million. This consisted of a £31 million gain relating to the break fee from News Corporation, net of related costs, and £11 million of restructuring costs which comprise severance payments in relation to approximately 35 senior roles as part of a restructuring initiative to improve operational efficiency; both of these amounts were classified as administration costs.

In the prior year, reported operating profit from continuing operations of £1,073 million included £26 million of restructuring costs arising on the acquisition of Living TV and costs of £15 million relating to the News Corporation proposal; both of these amounts were classified as administration costs. Included within marketing costs for the prior year was a credit of £41 million in relation to import duty on set-top boxes paid out in prior years.

Reported profit for the year from continuing operations also included a cost of £5 million due to writing off fees relating to the previous RCF, a gain of £7 million on the disposal of our investment in Chelsea Digital Media Limited and a gain of £19 million for mark-to-market gains relating to derivative financial instruments not qualifying for hedge accounting and gains and losses arising from designated fair value hedge accounting relationships.

In the prior year, reported profit for the year from continuing operations also included a £42 million exceptional gain, of which £18 million were mark-to-market gains relating to derivative financial instruments not qualifying for hedge accounting and gains and losses arising from designated fair value hedge accounting relationships, £9 million related to a profit on disposal of an available-for-sale investment and £15 million related to a non-cash tax credit for a tax settlement relating to the network operations retained from the Easynet business.

The related tax effects on the above items resulted in a £10 million charge (2011: £9 million charge).

Balance sheet

During the year, total assets increased by £155 million to £5,509 million at 30 June 2012. Non-current assets increased by £209 million to £3,234 million, primarily due to an increase of £113 million in intangible assets and property, plant and equipment and an increase of £115 million in non-current derivative financial assets resulting from mark-to-market movements on derivative instruments. This increase was partially offset by a decrease in deferred tax assets of £53 million.

Current assets decreased by £54 million to £2,275 million at 30 June 2012. This decrease was primarily due to a £177 million net decrease in cash and cash equivalents and short-term deposits, as a result of the share buy-back programme and dividend payments. This decrease was partially offset by an increase in inventories and trade and other receivables in the year.

Total liabilities increased by £246 million to £4,565 million at 30 June 2012. Current liabilities increased by £186 million to £2,098 million, primarily due to an increase in trade and other payables. Non-current liabilities increased by £60 million to £2,467 million, principally due to a £73 million increase in the fair value of the Group's non-current borrowings. This increase was partially offset by a £18 million decrease in non-current derivative financial liabilities.

Foreign exchange

For details of the impact of foreign currency fluctuations on our financial position and performance, see note 24 to the consolidated financial statements.

Liquidity and capital resources

An analysis of the movement in our net debt (including related fees) is as follows:

	As at 1 July 2011 £m	Cash movements £m	Non-cash movements £m	As at 30 June 2012 £m
Current borrowings	8	(1)	1	8
Non-current borrowings	2,325	–	73	2,398
Debt	**2,333**	**(1)**	**74**	**2,406**
Borrowings-related derivative financial instruments	(232)	–	(124)	(356)
Cash and cash equivalents	(921)	457	–	(464)
Short-term deposits	(430)	(280)	–	(710)
Net debt	**750**	**176**	**(50)**	**876**

The Group refers to net debt in discussing its indebtedness and liquidity position. Net debt is a non-GAAP measure that management uses to provide an assessment of the overall indebtedness of the Group. The most similar IFRS GAAP measures are current and non-current borrowings.

Management uses net debt to calculate and track adherence to the Group's borrowing covenants, as disclosed in note 22 to the consolidated financial statements. Management monitors the Group's net debt position because net debt is a commonly used measure in the investment analyst community and net debt is a key metric used by Moody's and Standard & Poor's in their assessment of the Group's credit rating. As such, management makes decisions about the appropriate investing and borrowing activities of the Group by reference to, amongst other things, net debt.

Our long-term funding comes primarily from our issued equity and US dollar and sterling-denominated debt. For details of the Group's facilities, long-term funding, indebtedness position and the terms of material debt arrangements, including compliance with borrowing covenants, see note 22 to the consolidated financial statements. For details of the Group's treasury activities, see note 24 to the consolidated financial statements.

Our principal source of liquidity is cash generated from operations, combined with access to a £743 million committed RCF, which expires on 31 October 2016. At 30 June 2012, this facility was undrawn (30 June 2011: undrawn).

Cash flow

Adjusted free cash flow increased by 5% to £910 million (2011: £869 million), reflecting an increase in cash generated from continuing operations, offset by increased capital expenditure.

Capital expenditure increased by £34 million to £457 million (2011: £423 million), 6.7% of sales. The largest contributor to growth was the growing scale of our broadband network as we unbundled a further 388 exchanges to reach 83% coverage of the UK, expanded The Cloud WiFi network and launched a fibre product.

Net debt as at 30 June 2012 was £876 million (2011: £750 million), with strong cash generation offset by amounts returned to shareholders via the share buy-back programme of £543 million.

The Group's liquidity and headroom are comfortable with no bond redemptions until October 2015 when £428 million falls due. As at the end of the year, cash and cash equivalents and short-term deposits were £1,174 million and the Group's £743 million RCF remained wholly undrawn.

Trends and other information

The significant trends and factors which have a material effect on our financial performance are outlined below.

The total number of customers, including standalone home communications customers, was 10,606,000, an increase of 312,000 customers during the year. We expect growth in customer numbers to continue as a result of the quality, choice, reliability and value of the services that we provide.

HD customers increased by 14% in the current year, representing a penetration of total TV Customers of 42% and we expect penetration to continue to increase.

Churn for the current year was 10.2%, compared to 10.4% in the prior year. Over the medium term we expect our churn to remain broadly around this level.

The increased number of customers to our HD, Sky Broadband and Sky Talk products is expected to generate increased retail revenue on a per customer basis.

During the current year, the number of wholesale subscribers receiving Sky Channels in the UK and Ireland was 4,340,000 compared to 4,382,000 in the prior year. Our wholesale subscribers are wholly dependent on the strategies of the relevant wholesale operators generally and as they relate to the distribution of our Channels (for further details see "Directors' Report – Business review - Review of our business" on page 16).

Advertising revenue decreased in the current year due to headwinds impacting the sector and higher payments to our partner channels. In the short term, the UK television advertising sector is expected to remain volatile and challenging reflecting the continued wider economic uncertainty.

The Group's programming costs have increased in the current year reflecting our continued commitment to investing in high quality content. We expect programming costs will continue to increase and note our commitment to increase our investment in UK originated content and production.

Direct network costs increased during the current year and are expected to increase in future years. The expected increase reflects higher Sky Broadband customer numbers, the cost of operating our Sky Talk service and the growth of broadband

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services as we continue to invest in further LLU unbundling and mass migrations onto our NVN network.

Marketing costs decreased in the year as a result of fewer gross additions and lower cost route-to-market sales as a result of driving more acquisitions through online channels. We expect marketing costs to decrease as a percentage of revenue as a result of our focus on operational efficiency.

Subscriber management and supply chain costs increased largely due to the sale of set-top boxes to Sky Italia. The level of growth in both the total number of customers and the number of additional services taken by our customers (for example HD) will remain key drivers of these costs in future as will our ability to deliver rate efficiency improvements across our contact centre and supply chain operations.

Administration costs decreased in the year due to a lower non-cash IFRS 2 "Share-based payment" charge and associated National Insurance costs than the prior year, as a result of the phasing or our share-incentive plans. Going forward, our aim is to hold the rate of growth in administration costs below that of revenue growth.

Off-balance sheet arrangements

At 30 June 2012, the Group did not have any undisclosed off-balance sheet arrangements that require disclosure as defined under the applicable rules of IFRS.

Related party transactions

The Group conducts all business transactions with companies which are part of the News Corporation group ("News Corporation"), a major shareholder, on an arm's length basis. During the current year, the Group made purchases of goods and services from News Corporation totalling £199 million (2011: £216 million) and supplied goods and services to News Corporation totalling £79 million (2011: £49 million).

On 13 July 2011, News Corporation announced that it no longer intended to make an offer for the entire issued and to be issued share capital of the Company not already owned by News Corporation. A break fee of £39 million was received during the year which exceeded all of the Group's direct costs associated with the proposal.

During the year, the Company purchased, and subsequently cancelled, 30,679,157 ordinary shares held by News Corporation as part of its share buy-back programme. For further details, see note 26 to the consolidated financial statements.

During the current year, the Group made purchases of goods and services from joint ventures and associates totalling £67 million (2011: £57 million) and supplied services to joint ventures and associates totalling £24 million (2011: £23 million).

For further details of transactions with related parties, see note 30 to the consolidated financial statements.

Events after the reporting period

On 25 July 2012, the Board agreed to seek the necessary approvals to return a further £500 million of capital to shareholders via a share buy-back programme. For further details, see note 31 to the consolidated financial statements.