SKY IN-HOME SERVICE LIMITED

Annual report and financial statements
For the 18 month period ended 31 December 2019

Registered number: 02067075

Directors and Officers

For the period ended 31 December 2019

Directors

Sky In-Home Service Limited's ("the Company's") present Directors and those who served during the period are as follows:

C J Taylor (resigned 10 June 2019)
C R Jones (appointed 12 January 2018, resigned 25 February 2019)
C Smith (appointed 25 February 2019)
A C Stylianou (appointed 25 February 2019)
D E C Allan

Secretary

C J Taylor (resigned 10 June 2019)
Sky Corporate Secretary Limited (appointed 10 June 2019)

Registered office

Grant Way
Isleworth
Middlesex
TW7 5QD

Auditor

Deloitte LLP
Statutory Auditor
London
United Kingdom

Strategic and Directors' Report

Strategic Report

The Directors present their Strategic and Directors' report on the affairs of the Company, together with the financial statements and Auditor's Report for the 18 month period ended 31 December 2019. During the 18 month period the Company changed its year-end from 30 June to 31 December, to align with that of Comcast Corporation, the ultimate controlling party of the Company. Accordingly, the financial statements comprise the eighteen-month period to 31 December 2019, with comparatives for the twelve months to 30 June 2018.

The purpose of the Strategic Report is to inform members of the Company and help them assess how the Directors have performed their duty under section 172 of the Companies Act 2006 (duty to promote the Company).

Business review and principal activities

The Company is a wholly-owned subsidiary of Sky UK Limited (the immediate parent company). The ultimate controlling party of the Company is Comcast Corporation and operates together with Comcast Corporation's other subsidiaries as a part of Comcast Group ("the Group").

The Company's purpose is to provide the Group with a supply chain function which is responsible for the distribution of all equipment required to be used in the customer's home and by the engineers, together with the planning and operational management of the field force that undertakes all installation activity on behalf of the Group's customers. The Company also manages the relationship with the engineers that service the Group's platform. The Company acquires the set-top boxes and related equipment it uses within its operations, together with the outsourced repair and logistics operation that service the Sky platform, from Sky CP Limited, another Group company. The Directors expect that there will be no major changes in the Company's activities in the following year.

On 9 October 2018, the offer by Comcast Bidco Limited to acquire the entire issued and to be issued share capital of the Sky Limited (formerly Sky plc) became wholly unconditional. As a result and as of that date, the ultimate controlling party of the Sky Limited and its direct and indirect subsidiaries, including the Company, is now Comcast Corporation. In the fourth quarter of 2018, Comcast Bidco acquired the remaining Sky shares and it now owns 100% of the share capital of the Sky Limited.

On 18 February 2019, Sky cancelled its previous £1 billion revolving credit facility, which had a maturity date of 30 November 2021, and the Company, as part of the Sky Ltd group of companies, now part of Comcast's inter-company funding relationships, which is discussed further below.

The Company has adopted IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' from 1 July 2018. Except for the first-time application of IFRS 15 and IFRS 9, significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the Company's financial statements as at and for the year ended 30 June 2018.

Financial Review and Dividends

The audited financial statements for the 18 month period ended 31 December 2019 are set out on pages 12 to 49. The profit before tax for the period was £71,129,000 (2018: £51,872,000). The Company's revenue increased by 88% in the year, principally due to a longer accounting period versus last year, together with an increase in hardware, installation and service revenue.

The Balance Sheet shows that the Company's shareholder equity position at the period-end is £341,068,000 (2018: £290,053,000). No dividend was proposed for the period ended 31 December 2019 (2018: £nil).

Key performance indicators (KPIs)

The Group manages its operations on a divisional basis. For this reason, the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the Company.

Principal risks and uncertainties

The Directors do not believe the Company is exposed to significant cash flow risk, price risk or interest rate risk.

Financial risk management objectives and policies

The use of financial derivatives is governed by the Group's treasury policy approved by the Board of Directors, which provide written principles on the use of financial derivatives to manage these risks. The Company does not use derivative financial instruments for speculative purposes.

Interest rate risk

The Company has financial exposure to UK interest rates arising from the investment of surplus cash and various loan balances with other companies within the Group. The Group's Treasury function monitors the Company's exposure to fluctuations in interest rates.

Foreign exchange risk

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates. The Company uses foreign exchange forward contracts to hedge these exposures. Refer to note 18 for further information.

Credit risk

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers, other than amounts payable to and receivable from other Group companies.

Liquidity risk

The Company relies on the Group Treasury function to manage its liquidity and ensure that sufficient funds are available for ongoing operations and future developments. The Company currently has access to a £3 billion revolving credit facility with its ultimate parent, Comcast Corporation, which is due to expire on 11 January 2024. The Company benefits from this liquidity through intra-group facilities and loans.

Legislation and Regulation risk
U.K. Exit from the European Union

Sky's businesses are subject to risks relating to uncertainties and effects of the implementation of the United Kingdom's referendum to withdraw membership from the EU (referred to as "Brexit"), including financial, legal, tax and trade implications.

The telecommunications and media regulatory framework applicable to Sky's businesses in the U.K. and the EU may be subject to greater uncertainty following the U.K.'s withdrawal from the EU in January 2020. We cannot predict the extent of any potential changes to the regulatory framework involving U.K. and EU regulation of telecommunications and media, or changes to certain mutual recognition arrangements for media and broadcasting.

Employment policies

Organisation

Over the past 18 months, the Company has continued in its efforts to make the Company a great place to work. The Company has continued to place particular focus on leadership capability, looking both at the Company's leaders of today and future leaders.

The average monthly number of full-time equivalent persons employed by the Company during the period was 3,795 (2018: 3,336).

Managing and developing our people

Equal opportunities

At Sky we believe in equal opportunities and that everyone should have full and fair consideration for all vacancies, promotions, training and development. We work with employees who have disabilities to remove barriers from the working environment to allow them to maximise their potential.

Inclusion

It's our people that make Sky, Europe's leading entertainment company, and we know that embracing different perspectives fosters innovation. Having diverse voices contribute to the decisions we take as a business helps us better anticipate and meet the needs of all our customers. Our ambition is to become the industry leader for inclusion, both on screen and behind the scenes. To help us achieve this we are focused on increasing the representation of people from BAME (Black, Asian, and minority ethnic) backgrounds in our business and remain committed to achieving gender parity. We are also actively supporting women to develop skills in traditionally underrepresented areas, with initiatives such as 'Get into Tech'. We support the aims of the UK legislation requiring organisations to publish their gender pay gap and are committed to equal pay.

Employee engagement

At Sky we listen to our people and encourage everyone to be involved. We know great ideas come from all corners of our business and it is part of our 'believe in better' spirit to harness those ideas for the benefit of our customers and our people. This period we gathered feedback from our teams through our People Survey. We achieved record levels of participation in the survey and we continue to achieve high levels of engagement, outperforming the 2018 employee engagement score.

Impacts of COVID-19

The novel coronavirus disease 2019 ("COVID-19") and measures taken to prevent its spread across the globe are impacting Sky's businesses in a number of ways.

As a result of COVID-19, many sporting events and professional sports seasons were postponed in the first half of 2020, with certain sports, including European football, resuming in May and June 2020. This had a significant impact on Sky's results of operations in the first half of 2020. Direct-to-consumer revenue has been negatively impacted as a result of lower sports subscription revenue and continued negative impacts as a result of the impacts of COVID-19 on the reopening plans of Sky's commercial customers are expected. Additionally, significant costs associated with broadcasting these programmes were not recognised as a result of sporting events not occurring as scheduled in the first half of 2020. Although sporting events have resumed, COVID-19 continues to result in uncertainty in the ultimate timing of when, or the extent to which, these events will occur in 2020; their broadcast is expected to impact the timing, and potentially the amount, of revenue and expense recognition.

Sky also temporarily suspended certain sales channels due to COVID-19, which negatively impacted net customer additions and revenue in the first half of 2020. Sales channels generally resumed operations in June 2020.

COVID-19 has resulted in the deterioration of economic conditions and increased economic uncertainty in the United Kingdom and Europe, intensifying what was an already deteriorating economic and advertising environment. These conditions negatively impacted revenue in the first half of 2020, and these conditions are expected to continue to reduce advertising spend and consumer demand for Sky's services for the remainder of 2020. In addition, there is increased risk associated with collections on Sky's outstanding receivables, and Sky has incurred and expects to continue to incur increases in its bad debt expense.

Approved by the Board and signed on its behalf,

C Smith
Director

Grant Way
Isleworth
Middlesex
United Kingdom
TW7 5QD

27 November 2020

Directors' Report

The Directors who served during the period are shown on page 1. No dividend was proposed for the period ended 31 December 2019 (2018: £nil).

The Company has chosen, in accordance with section 414C(11) of Companies Act 2006, to include such matters of strategic importance to the Company in the Strategic Report which otherwise would be required to be disclosed in the Director's report.

Going concern

The Company's business activities together with the factors likely to affect its future development and performance are set out in the Business Review. The Strategic Report details the financial position of the Company, as well as the Company's objectives and policies, and details of its exposures to credit risk, liquidity risk, interest rate risk and foreign exchange risk.

Given the integrated nature of the Group's financial planning and treasury functions, the impact of COVID-19 on the Company's operations and funding requirements has been assessed at the Group level. Although negatively impacted by COVID-19, the Directors expect that the businesses will continue to generate adequate cash flow from operating activities and believe that these cash flows, together with the Company's existing cash, cash equivalents and investments, and available borrowings under its existing credit facilities, including the £3 billion revolving credit facility with Comcast, will be sufficient for the Company to meet its current and long-term liquidity and capital requirements. We further highlight that the Company has received confirmation of support from Comcast for a period of at least 12 months from the date of signing of these financial statements.

As a result, after making enquiries, the Directors have formed a judgement at the time of approving the financial statements that the Company will have access to adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Auditor

In accordance with the provisions of Section 418 of the Companies Act 2006, each of the persons who are Directors of the Company at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and
- the Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information.

Deloitte LLP have expressed their willingness to continue as auditor and a resolution to reappoint them was approved by the Board of Directors on 27 November 2020.

Strategic and Directors Report (continued)

Approved by the Board and signed on their behalf by:

C Smith
Director

Grant Way
Isleworth
Middlesex
United Kingdom
TW7 5QD

27 November 2020

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor's Report

Independent auditor's report to the members of Sky In-home service limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Sky in-home service limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the period then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Sky In-Home Service Limited which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the cash flow statement;
- the statement of changes in equity; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Auditor's Report (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Auditor's Report (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Jon Young

Jon Young FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

27 November 2020

Income Statement

For the period ended 31 December 2019

	Notes	18 months to 31 December 2019	12 months to 30 June 2018
		£'000	£'000
Revenue	2	**903,212**	479,697
Operating expense	3	**(817,876)**	(431,826)
Operating profit		**85,336**	47,871
Investment income	4	**3,503**	4,001
Finance costs	4	**(17,710)**	-
Profit before tax	5	**71,129**	51,872
Tax	7	**(8,080)**	(5,149)
Profit for the period attributable to equity shareholder		**63,049**	46,723

From 1 July 2018, the Company has applied IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments' using a modified retrospective approach.

As a result, the 2018 figures presented for comparison purposes have not been adjusted. The impacts of this first-time adoption are presented in Note 1, where applicable.

The accompanying notes are an integral part of this Income Statement.

All results relate to continuing operations.

Statement of Comprehensive Income

For the period ended 31 December 2019

	Notes	18 months to 31 December 2019	12 months to 30 June 2018
		£'000	£'000
Profit for the period attributable to equity shareholder		**63,049**	46,723
Other comprehensive income			
Amounts recognised directly in equity that may subsequently be recycled to the Income statement			
Gain / (loss) on cash flow hedges	17	**9,672**	(8,067)
Tax on cash flow hedges	7	**(1,644)**	1,372
Amounts reclassified and reported in the income statement			
Gain / (loss) on cash flow hedges	17	**10,609**	(3,942)
Tax on cash flow hedges	7	**(1,804)**	670
Amounts reclassified and reported in non-financial assets (basis adjustment)			
Loss on cash flow hedges	17	**-**	(55,198)
Tax on cash flow hedges	7	**-**	9,383
Other comprehensive (expense) for the period (net of tax)		**16,833**	(55,782)
Total comprehensive income / (expense) for the period attributable to equity shareholder		**79,882**	(9,059)

From 1 July 2018, the Company has applied IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments' using a modified retrospective approach.

As a result, the 2018 figures presented for comparison purposes have not been adjusted. The impacts of this first-time adoption are presented in Note 1, where applicable.

The accompanying notes are an integral part of this Income Statement.

All results relate to continuing operations.

Balance Sheet

As at 31 December 2019

	Notes	**31 December 2019 £'000**	30 June 2018 £'000
Non-current assets			
Intangible assets	9	**11,493**	2,381
Property, plant and equipment	10	**818,723**	540,455
Fixed asset investments	11	**1,214**	1,214
Total non-current assets		**831,430**	544,050
Current assets			
Inventories	13	**31,996**	29,330
Trade and other receivables	14	**627,623**	213,534
Cash and cash equivalents		**3,753**	5,223
Derivative financial assets	17	**-**	6,182
Total current assets		**663,372**	254,269
Total assets		**1,494,802**	798,319
Current liabilities			
Trade and other payables	15	**1,099,789**	460,956
Provisions	16	**39,871**	32,499
Derivative financial liabilities	17	**-**	1,029
Total current liabilities		**1,139,660**	494,484
Net current liabilities		**(476,288)**	(240,215)
Non-current liabilities			
Deferred tax liabilities	12	**13,350**	13,782
Provisions	16	**724**	-
Derivative financial liabilities	17	**-**	-
Total non-current liabilities		**14,074**	13,782
Total liabilities		**1,153,734**	508,266
Net assets		**341,068**	290,053
Share capital	19	**1,576**	1,576
Share premium	20	**56**	56
Reserves	20	**339,436**	288,421
Total equity attributable to equity shareholder		**341,068**	290,053
Total liabilities and shareholder's equity		**1,494,802**	798,319

From 1 July 2018, the Company has applied IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments' using a modified retrospective approach.

As a result, the 2018 figures presented for comparison purposes have not been adjusted. The impacts of this first time adoption are presented in Note 1, where applicable.

The accompanying notes are an integral part of this Balance Sheet.

Balance Sheet

As at 31 December 2019

The financial statements of Sky In-Home Service Limited, registered number 02067075, were approved by the Board of Directors on 27 November 2020 and were signed on its behalf by:

C Smith
Director

27 November 2020

Cash Flow Statement

For the period ended 31 December 2019

	Note	**2019** **£'000**	2018 £'000
Cash flows from operating activities			
Cash generated from operations	21	**493,637**	330,369
Net cash from operating activities		**493,637**	330,369
Cash flows from investing activities			
Distributions received		**119**	58
Purchase of property, plant and equipment		**(487,018)**	(329,067)
Purchase of intangible assets		**(10,356)**	(2,258)
Net cash used in investing activities		**(497,255)**	(331,267)
Cash flows from financing activities			
Net proceeds from intercompany borrowings		**2,148**	-
Net cash from financing activities		**2,148**	-
Net (decrease) in cash and cash equivalents		**(1,470)**	(898)
Cash and cash equivalents at the beginning of the period		**5,223**	6,121
Cash and cash equivalents at the end of the period		**3,753**	5,223

The accompanying notes are an integral part of this Cash Flow Statement. All results relate to continuing operations.

Statement of Changes in Equity

For the period ended 31 December 2019

	Share Capital	Share premium	Hedging reserve	Retained earnings	Total shareholder's equity
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
At 1 July 2017	**1,576**	**56**	**70,253**	**226,318**	**298,203**
Profit for the year	-	-	-	46,723	46,723
Recognition and transfer of cash flow hedges:					
- In equity	-	-	(8,067)	-	(8,067)
- In income statement	-	-	(3,942)	-	(3,942)
- In non-financial assets (basis adjustment)	-	-	(55,198)	-	(55,198)
Tax on items taken directly to equity	-	-	11,425	-	11,425
Total comprehensive (expense)/income for the year	**-**	**-**	**(55,782)**	**46,723**	**(9,059)**
Share based payment	-	-	-	728	728
Tax on items taken directly to equity	-	-	-	181	181
At 30 June 2018	**1,576**	**56**	**14,471**	**273,950**	**290,053**
Profit for the period	-	-	-	63,049	63,049
Recognition and transfer of cash flow hedges:					
- In equity	-	-	9,672	-	9,672
- In income statement	-	-	10,609	-	10,609
- In non-financial assets (basis adjustment)	-	-	-	-	-
Tax on items taken directly to equity	-	-	(3,448)	-	(3,448)
Total comprehensive (expense)/income for the period	**-**	**-**	**16,833**	**63,049**	**79,882**
Inventory cash flow movements	-	-	(37,716)	-	(37,716)
Share based payment	-	-	-	1,402	1,402
Tax on items taken directly to equity	-	-	6,412	1,035	7,447
At 31 December 2019	**1,576**	**56**	**-**	**339,436**	**341,068**

From 1 July 2018, the Company has applied IFRS 15 'Revenue from contracts with customers' and IFRS 9 'Financial instruments' using a modified retrospective approach. There were no impacts identified on transition which have been recognised in equity reserves.

As a result, the 2018 figures presented for comparison purposes have not been adjusted. The impacts of this first-time adoption are presented in Note 1, where applicable.

The accompanying notes are an integral part of this Statement of Changes in Equity.

For a description of the nature and purpose of each equity reserve, see note 20.

Notes to the financial statements

1. Accounting policies

Sky In-Home Service Limited (the "Company") is a private company limited by shares, incorporated in the United Kingdom ("UK"), and registered in England and Wales. The address of the registered office is Grant Way, Isleworth, Middlesex, TW7 5QD and registered number is 02067075.

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and the Companies Act 2006. In addition, the Company also complied with IFRS as issued by the International Accounting Standards Board ("IASB").

b) Basis of preparation

The financial statements have been prepared on a going concern basis (as set out in the Directors' Report) and on a historical cost basis, except for the remeasurement to fair value of certain financial assets and liabilities as described in the accounting policies below. The Company has adopted the new accounting pronouncements which became effective this period.

The Company has adopted the new accounting pronouncements which became effective this period. The Company has adopted IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' from 1 July 2018.

i. IFRS 15 – 'Revenue from contracts with customers'

The Company has finalised its analysis and adopted IFRS 15 from 1 July 2018. As permitted by the standard, the Company has taken advantage of the modified transitional provisions and as such the prior period results remain as previously reported. No adjustment has been identified on transition to IFRS 15 or recognised during the period.

Since 1 July 2018, the Company has applied the provisions of IFRS 15, described below, to measure and recognise revenue.

IFRS 15 requires that the recognition of revenue from contracts with customers must reflect:

- the rate at which performance obligations are fulfilled, corresponding to the transfer to a customer of control of a good or service, where control transfers either over time, or at a point in time; and
- the amount to which the seller expects to be entitled as consideration for its activities.

The Company's revenue comprises

- Hardware and service revenue, which continues to be recognised at a point in time or over time, as performance obligations are fulfilled.

ii. IFRS 9 – 'Financial Instruments'

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial instruments: Recognition and Measurement' and is effective on the Company from 1 July 2018.

The Company has applied the classification, measurement and impairment requirements of the standard on a modified retrospective basis, with no restatement of comparative periods. No adjustment has been recognised on transition to IFRS 9 or during the period.

The areas which impact the Company relate to e.g. the recognition of impairment provisions for customer receivables and other financial assets. IFRS 9 also contains new rules relating to hedge accounting, although the adoption of these is not mandatory and the Company will continue to apply IAS 39 hedge accounting policies.

Notes to the financial statements

1. Accounting policies (continued)

b) Basis of preparation (continued)

ii. IFRS 9 – 'Financial Instruments' (continued)

IFRS 9 introduces an impairment model based on expected credit losses. This requires a provision for impairment to be considered, and if required to be recorded, when the receivable is recognised, compared to IAS 39 which requires a provision to be made only when a loss event occurs. The Company elected to apply IFRS 9's simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. This involves, for example, the application of a provision matrix where trade receivables are grouped based on shared credit risk characteristics and ageing, or other appropriate methods given the nature of the receivable, and requires an estimate of expected lifetime credit loss rates. These loss rates are based on, inter alia, the entity's historical credit losses, adjusted for reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions, in order to derive an expectation. The application of this approach has not had a material impact on the provision for impairment of third party trade receivables compared to the Company's previous approach under IAS 39.

Amounts due from group companies are typically non-interest bearing and are repayable on demand. With respect to impairment provisions under IFRS 9, an expectation of credit losses for intercompany loan receivables is required, taking into consideration similar factors as for third party balances above, in addition to entity's ability to trade and borrow as part of the wider Group, in order to settle the receivables. The IFRS 9 credit loss model has not had a material impact with respect to impairment of entity's intercompany receivables compared to the Company's previous approach under IAS 39.

IFRS 9 requires that amounts recognised in non-financial assets (basis adjustment) are recognised directly in equity, which were previously recognised in other comprehensive income under IAS 39 'Financial Instruments: Recognition and Measurement.'

In addition to the first-time application of IFRS 15 and IFRS 9, no other new accounting pronouncements had a significant impact on the Company's results or financial position.

The Company has classified assets and liabilities as current when they are expected to be realised in, or intended for sale or consumption in, the normal operating cycle of the Company.

The Company has taken advantage of the exemption from preparing the consolidated financial statements afforded by section 401 of the Companies Act 2006, because it is a wholly-owned subsidiary of the Comcast Corporation which prepares consolidated financial statements which are publicly available (see note 25).

c) Intangible assets and property, plant and equipment ("PPE")

i. Intangible Assets

Research expenditure is recognised in operating expense in the Income Statement as the expenditure is incurred. Development expenditure (relating to the application of research knowledge to plan or design new or substantially improved products for sale or use within the business) is recognised as an intangible asset from the point that the Company has the intention and ability to generate future economic benefits from the development expenditure, that the development is technically feasible and that the subsequent expenditure can be measured reliably.

Accounting policies (continued)

c) Intangible assets and property, plant and equipment ("PPE") (continued)

i. Intangible Assets (continued)

Any other development expenditure is recognised in operating expense as incurred. Other intangible assets, which are acquired by the Company separately or through a business combination, are initially stated at cost or fair value, respectively, less accumulated amortisation and impairment losses, other than those that are classified as held for sale, which are stated at the lower of carrying amount and fair value less costs to sell.

Amortisation of an intangible asset begins when the asset is available for use, and is charged to the Income Statement through operating expense on a straight-line basis over the intangible asset's estimated useful life, principally being a period between three and ten years, unless the asset life is judged to be indefinite. If the useful life is indefinite or the asset is not yet available for use, no amortisation is charged and an impairment test is carried out at least annually. Other intangible assets are tested for impairment in line with accounting policy (g) below.

ii. Property, plant and equipment

Owned PPE is stated at cost, net of accumulated depreciation and any impairment losses, (see accounting policy g), other than those items that are classified as held for sale, which are stated at the lower of carrying amount and fair value less costs to sell. When an item of PPE comprises major components having different useful economic lives, the components are accounted for as separate items of PPE.

The cost of PPE, less estimated residual value, is depreciated in operating expense on a straight-line basis over its estimated useful life. Land, and assets that are not yet available for use, are not depreciated. Principal useful economic lives used for this purpose are:

Set-top boxes and routers	5 to 7 years
Equipment, furniture and fixtures	3 to 20 years

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

To the extent that the financing for a qualifying asset is part of the Group's general borrowings, the interest cost to be capitalised is calculated based upon the weighted average cost of borrowing to the Sky Group (excluding the interest on any borrowings specific to any qualifying assets). This is then applied to the expenditures on the asset.

All other borrowing costs are recognised in profit or loss in the period to which they relate.

d) Derivative financial instruments and hedging activities

The Company used a number of derivative financial instruments to hedge its exposure to fluctuations in foreign exchange rates.

Derivatives are held at fair value from the date on which a derivative contract is entered into. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under IFRS 13 "Fair Value Measurement". The Company calculates a separate credit valuation adjustment ('CVA') or debit valuation adjustment ('DVA') for each derivative based upon the net position for each counterparty relationship.

The Company calculates the CVA where it has a net asset position using a quoted credit default swap curve for the counterparty and calculates the DVA where it has a net liability position using an industry proxy credit default swap curve for the Company. The fair value of derivative financial instruments is calculated by discounting future cash flows with reference to the benchmark Libor curve, adjusted by the relevant credit default swap curve.

Notes to the financial statements

1. Accounting policies (continued)

d) Derivative financial instruments and hedging activities (continued)

Certain derivatives held by the Company which relate to highly probable forecast transactions ("hedged items"), which meet qualifying criteria under IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"), are designated as cash flow hedges. Other derivatives which hedge changes in fair value of fixed rate financial instruments and meet the requirements of IAS 39 are designated as fair value hedges. Certain other derivatives held by the Company do not meet the qualifying criteria for recognition for accounting purposes as hedges, despite this being their economic function. Changes in the fair values of these derivatives are recognised immediately in the Income Statement. The Company does not hold or issue derivatives for speculative purposes.

i. Derivatives that qualify for cash flow hedge accounting

Changes in the fair values of derivatives that are designated as cash flow hedges ("cash flow hedging instruments") are initially recognised in the hedging reserve. Amounts accumulated in the hedging reserve are subsequently recognised in the initial cost or other carrying amount of the non-financial asset or liability on the balance sheet and affect the Income Statement in the periods in which the related hedged items are recognised in the Income Statement.

At inception, the effectiveness of the Company's cash flow hedges is assessed through a comparison of the principal terms of the hedging instrument and the underlying hedged item. The ongoing effectiveness of the Company's cash flow hedges is assessed using the dollar-offset approach, with the expected cash flows of hedging instruments being compared to the expected cash flows of the hedged items. This assessment is used to demonstrate that each hedge relationship is expected to be highly effective on inception, has been highly effective in the period and is expected to continue to be highly effective in future periods. The measurement of hedge ineffectiveness for the Company's hedging instruments is calculated using the hypothetical derivative method, with the fair values of the hedging instruments being compared to those of the hypothetical derivative that would result in the designated cash flow hedge achieving perfect hedge effectiveness.

The excess of the cumulative change in the fair value of the actual hedging instrument compared to that of the hypothetical derivative is deemed to be hedge ineffectiveness, which is recognised in the Income Statement.

The Company uses a range of 80% to 125% for hedge effectiveness, in accordance with IAS 39, and any relationship which has effectiveness outside this range is deemed to be ineffective and hedge accounting is suspended.

When a cash flow hedging instrument expires, is terminated or is exercised, or if a hedge no longer meets the qualifying criteria for hedge accounting, any cumulative gain or loss existing in the hedging reserve at that time remains in the hedging reserve and is recognised when the forecast transaction is ultimately recognised in the Income Statement, provided that the underlying transaction is still expected to occur. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedging reserve is immediately recognised in the Income Statement and all future changes in the fair value of the cash flow hedging instruments are immediately recognised in the Income Statement.

ii. Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the Income Statement. Embedded derivatives are carried on the Balance Sheet at fair value from the inception of the host contract. Changes in fair value are recognised within the Income Statement during the period in which they arise.

Notes to the financial statements

1. Accounting policies (continued)

e) Inventories

Set-top boxes, routers and related equipment are valued at the lower of cost and NRV, the latter of which reflects the value that the business expects to realise from the set-top boxes and related equipment in the hands of the customer, and are recognised through the operating expense line of the Income Statement. Any subsidy is expensed on enablement, which is the process of activating the viewing card during installation, so as to enable a viewer to view encrypted broadcast services, and effectively represents the completion of the installation process for new subscribers. The amount recognised in the Income Statement is determined on a weighted average cost basis, in accordance with IAS 2 "Inventory".

f) Financial assets and liabilities

Financial assets and liabilities are initially recognised at fair value plus any directly attributable transaction costs. At each balance sheet date, the Company assesses whether there is any objective evidence that any financial asset is impaired. Financial assets and liabilities are recognised on the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the financial asset or liability. Financial assets are derecognised from the Balance Sheet when the Company's contractual rights to the cash flows expire or the Company transfers substantially all the risks and rewards of the financial asset. Financial liabilities are derecognised from the Company's Balance Sheet when the obligation specified in the contract is discharged, cancelled or expires.

i. Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments and, where no stated interest rate is applicable, are measured at the original invoice amount, if the effect of discounting is immaterial. Where discounting is material, trade and other receivables are measured at amortised cost using the effective interest method.

An allowance account is maintained to reduce the carrying value of trade and other receivables for impairment losses recognised on an expected loss basis under IFRS 9, with movements in the allowance account, either from increased impairment losses or reversals of impairment losses, being recognised in the income statement.

ii. Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank accounts, deposits receivable on demand and deposits with maturity dates of three months or less from the date of inception. Bank overdrafts that are repayable on demand and which form an integral part of the Company's cash management are also included as a component of cash and cash equivalents where offset conditions are met.

iii. Trade and other payables

Trade and other payables are non-derivative financial liabilities and are measured at amortised cost using the effective interest method. Trade and other payables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial.

g) Impairment

At each balance sheet date, in accordance with IAS 36 "Impairment of Assets", the Company reviews the carrying amounts of all its assets excluding inventories (see accounting policy g), financial assets (see accounting policy h) and deferred taxation (see accounting policy o) to determine whether there is any indication that any of those assets have suffered an impairment loss.

An impairment is recognised in the Income Statement whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. The recoverable amount is the greater of net selling price, defined as the fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are

Notes to the financial statements

1. Accounting policies (continued)

g) Impairment (continued)

discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to those units, and then to reduce the carrying amount of other assets in the unit on a pro-rata basis.

An impairment loss for an individual asset shall be reversed if there has been a change in estimates used to determine the recoverable amount since the last impairment loss was recognised and is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

h) Investments in subsidiaries

An investment in a subsidiary is recognised at cost less any provision for impairment. As permitted by section 133 of the Companies Act 2006, where the relief recorded under section 131 of the Companies Act 2006 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings.

i) Provisions

Provisions are recognised when the Company has a probable, present legal or constructive obligation to make a transfer of economic benefits as a result of past events where a reliable estimate is available. The amounts recognised represent the Company's best estimate of the transfer of benefits that will be required to settle the obligation as at the balance sheet date. Provisions are discounted if the effect of the time value of money is material using a pre-tax market rate adjusted for risks specific to the liability.

j) Revenue recognition

Revenue, which excludes value added tax, represents the gross inflow of economic benefit from the Company's operating activities and is measured at the fair value of the consideration received or receivable.

The Company's main source of revenue is recognised in the Income Statement when the goods and services are delivered.

k) Employee benefits

i. Wages, salaries and social security contributions

Wages, salaries, social security contributions, bonuses payable and non-monetary benefits for current employees are recognised in the Income Statement as the employees' services are rendered.

ii. Pension obligations

Where the Company provides pensions to eligible employees through defined contribution schemes, the amount charged to the Income Statement in the period represents the cost of contributions payable by the Company to the schemes in exchange for employee services rendered in that period. The assets of the schemes are held independently of the Company.

1. Accounting policies (continued)

k) Employee benefits (continued)

iii. Termination benefits

Termination benefits are recognised as a liability when, and only when, the Company has a demonstrable commitment to terminate the employment of an employee or group of employees before the normal retirement date or as the result of an offer to encourage voluntary redundancy.

The Company issues equity-settled share-based payments to certain employees which must be measured at fair value and recognised as an expense in the Income Statement with a corresponding increase in equity. The fair values of these payments are measured at the dates of grant using option-pricing models, taking into account the terms and conditions upon which the awards are granted.

The fair value is recognised over the period during which employees become unconditionally entitled to the awards, subject to the Company's estimate of the number of awards which will be forfeited, either due to employees leaving the Company prior to vesting or due to non-market based performance conditions not being met.

Where an award has market-based performance conditions, the fair value of the award is adjusted for the probability of achieving these via the option pricing model. The total amount recognised in the Income Statement as an expense is adjusted to reflect the actual number of awards that vest, except where forfeiture is due to the failure to meet market-based performance measures. In the event of a cancellation, whether by the Company or by a participating employee, the compensation expense that would have been recognised over the remainder of the vesting period is recognised immediately in the income statement.

l) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the asset to the lessee. All other leases are classified as operating leases.

Sub-lease income from operating leases is recognised on a straight-line basis over the term of the lease.

When the Company is lessee, assets held under finance leases are recognised as assets of the Company at their fair value on the date of acquisition, or if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reductions of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

The lease expense arising from operating leases is charged to the Income Statement on a straight-line basis over the term of the lease. Benefits received and receivable as incentives to enter into operating leases are recorded on a straight-line basis over the lease term.

When the Company is a lessor, assets which are provided under operating lease arrangements are recognised as assets within property, plant and equipment. The assets remain in the economic ownership of the Group for the duration of the lease, and are depreciated over their useful economic lives.

m) Tax, including deferred tax

The Company's liability for current tax is based on taxable profit for the year, and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the Balance Sheet and the corresponding tax bases used in the computation of taxable profit. Temporary differences arising from goodwill and the initial recognition of assets or liabilities that affect neither accounting profit nor taxable profit are not provided for.

1. Accounting policies (continued)

m) Tax, including deferred tax (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and adjusted to reflect an amount that is probable to be realised based on the weight of all available evidence. Deferred tax is calculated at the rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets and liabilities are not discounted. Deferred tax is charged or credited in the Income Statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also included within equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

n) Distributions to equity shareholders

Dividends are recognised in the retained earnings reserve in the period in which they are declared.

o) Foreign currency translation

The Company's functional currency and presentational currency is pounds sterling. Trading activities denominated in foreign currencies are recorded in pounds sterling at the applicable monthly exchange rates. Monetary assets, liabilities and commitments denominated in foreign currencies at the balance sheet date are recorded at the rates of exchange at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated to pounds sterling at the exchange rate prevailing at the date of the initial transaction. Gains and losses from the retranslation of assets and liabilities are included net in profit for the period.

p) Critical accounting policies and judgement and key sources of estimation uncertainty

Certain accounting policies are considered to be critical to the Company. An accounting policy is considered to be critical if in the Directors' judgement its selection or application materially affects the Company's financial position or results. The application of the Company's accounting policies also requires the use of estimates and assumptions that affect the Company's financial position or results. Below is a summary of the Company's critical accounting policies and details of the key areas of judgement that are exercised in their application.

There are no areas identified for which there are major sources of estimation uncertainty at the reporting period end (as defined by IAS 1), that have a significant risk of causing in a material adjustment to be made to the carrying value amounts of assets and liabilities within the next financial year.

By contrast, areas where estimation is applied primarily in the context of applying critical accounting policies and judgements, have been discussed in the preceding section above.

i. Taxation, including deferred taxation (see notes 7 and 12)

The Company's tax charge is the sum of the total current and deferred tax charges. The calculation of the Company's total tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process.

Provisions for tax contingencies require management to make judgements and estimates in relation to tax audit issues and exposures. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Tax benefits are not recognised unless it is probable that the tax positions will be sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a

Notes to the financial statements

1. Accounting policies (continued)

p) Critical accounting policies and judgement and key sources of estimation uncertainty (continued)

i. Taxation, including deferred taxation (see notes 7 and 12) (continued)

provision should be taken against full recognition of the benefit on the basis of the likely resolution of the issue through negotiation and/or litigation. The amounts recognised in the financial statements in respect of each matter are derived from the Company's best estimation and judgement, as described above. However, the inherent uncertainty regarding the outcome of these items means the eventual resolution could differ from the provision and in such event the Company would be required to make an adjustment in a subsequent period which could have a material impact on the Company's profit and loss and/or cash position.

The key area of judgement in respect of deferred tax accounting is the assessment of the expected timing and manner of realisation or settlement of the carrying amounts of assets and liabilities held at the balance sheet date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deferred tax assets can be utilised.

ii. Intangible assets and property, plant and equipment (see notes 9 and 10)

The assessment of the useful economic lives of these assets requires judgement. Depreciation and amortisation is charged to the Income Statement based on the useful economic life selected, which requires an estimation of the period and profile over which the Company expects to consume the future economic benefits embodied in the assets. The Company reviews its useful economic lives on at least an annual basis.

Determining whether the carrying amount of these assets has any indication of impairment also requires judgement. If an indication of impairment is identified, further judgement is required to assess whether the carrying amount can be supported by, for example, the net present value of future cash flows forecast to be derived from the asset. This forecast involves cash flow projections and selecting the appropriate discount rate, where applicable.

Assessing whether assets meet the required criteria for initial capitalisation requires judgement. This requires a determination of whether the assets will result in future benefits to the Company. In particular, internally generated intangible assets must be assessed during the development phase to identify whether the Company has the ability and intention to complete the development successfully. Determining the costs of assets to be capitalised requires judgement. Specifically, judgement and estimation is required in determining the amount of duties and non-refundable taxes, probable trade discounts and rebates, and directly attributable costs to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management (including relevant delivery and logistics costs to the customer's premises) to be allocated to the asset.

q) Accounting standards, interpretations and amendments to existing standards that are not yet effective

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for accounting periods beginning on or after 1 January 2020. These new pronouncements are listed below. The Directors are currently evaluating the impact of the adoption of these standards, amendments and interpretations in future periods.

- IFRS 17 'Insurance Contracts'
- Amendments to References to the Conceptual Framework in IFRS Standards
- IFRS 16 'Leases'

When IFRS 16 is adopted, it can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, or with the cumulative retrospective impact of IFRS 16 applied as an adjustment to equity on the date of adoption; when the latter approach is applied it is necessary to disclose the impact of IFRS 16 on each line item in the financial statements in the reporting period. Depending on the

Notes to the financial statements

1. Accounting policies (continued)

q) Accounting standards, interpretations and amendments to existing standards that are not yet effective (continued)

adoption method that is utilised, certain practical expedients may be applied on adoption. The Company has not yet determined which method it will adopt.

IFRS 16 replaces IAS 17 'Leases' and will primarily change lease accounting for lessees; lessor accounting under IFRS 16 is expected to be similar to lease accounting under IAS 17. Lessee accounting under IFRS 16 will be similar in many respects to existing IAS 17 accounting for finance leases but is expected to be substantively different to existing accounting for operating leases.

Where a contract meets IFRS 16's definition of a lease, lease agreements will give rise to the recognition of a non-current asset representing the right to use the leased item, and a loan obligation for future lease payables.

Lease costs will be recognised in the form of depreciation of the right to use asset and interest on the lease liability, which may impact the phasing of operating profit and profit before tax, compared to existing cost profiles and presentation in the income statement, and will also impact the classification of associated cash flows.

The detailed assessment of the impact on the Company is ongoing, with the current focus being on assessing of the completeness of lease contracts.

Notes to the financial statements

2. Revenue

Revenue of £903,212,000 (2018: £479,697,000) is derived from the supply, installation and maintenance of satellite television receiving and related equipment. Revenue arises from goods and services provided to the United Kingdom, Republic of Ireland, Italy and Germany. This is split between the UK £746,408,000 (2018: £409,164,000) and the rest of the world £156,804,000 (2018: £70,533,000).

3. Operating expense

	2019	2018
	£'000	£'000
Sales, general and administration	**817,876**	431,826

4. Investment income and finance costs

	2019	2018
	£'000	£'000
Investment income		
Distributions received	**119**	58
Remeasurement of other derivative financial instruments (not qualifying for hedge accounting)	**3,384**	3,943
	3,503	4,001
Finance costs		
Finance charges	**(17,710)**	-

The Company received distributions from its investment in Athena Court Property Unit Trust during the period.

Finance charges relate to the FX associated with the maturing of all hedges in the period.

Notes to the financial statements

5. Profit before tax

Profit before tax is stated after charging:

	2019	2018
	£'000	£'000
Cost of inventories recognised as an expense	**229,472**	121,724
Depreciation and impairment of property, plant and equipment	**192,580**	81,146
Amortisation of intangible assets	**1,245**	992
Provision for bad and doubtful debts	**94**	-
Rentals on operating leases and similar arrangements	**5,588**	3,527

Audit fees

Amounts were paid to the auditor for the audit of the Company's annual accounts of £125,000 (2018: £15,000). No amounts for other services have been paid to the auditor.

Foreign exchange

Foreign exchange losses recognised in the Income Statement during the period amounted to £276,000 (2018: loss of £5,342,000).

6. Employee benefits and key management compensation

a) Company employee benefits

	2019	2018
	£'000	£'000
Wages and salaries	**131,977**	103,552
Social security costs	**14,090**	11,477
Costs of employee share option schemes (i)	**7,107**	728
Contributions to the Sky Pension Plan (ii)	**6,396**	4,467
	159,570	120,224

(i) The expense recognised for employee share option schemes relates wholly to equity-settled share-based payments.

(ii) The Company operates a defined contribution pension scheme (the "Pension Plan"). The pension charge for the year represents the cost of contributions payable by the Company to the schemes during the period. The amount payable to the schemes at 31 December 2019 was £1,044,000 (2018: £691,000).

The average monthly number of full-time equivalent persons (including temporary employees) employed by the Company during the period was as follows:

	2019	2018
Supply Chain	**3,795**	3,336

There are approximately 1 (2018: 18) temporary staff included within the average number of full-time equivalent persons employed by the Company.

Notes to the financial statements

6. Employee benefits and key management compensation (continued)

b) Key management compensation

The Directors did not receive any remuneration during the year/period (2018: £nil) in respect of their services to the Company.

7. Tax

a) Tax recognised in the income statement / statement of comprehensive income

	2019	2018
	£'000	£'000
Current tax expense		
Current year	**5,695**	1,936
Adjustment in respect of prior years	**-**	-
Total current tax charge	**5,695**	1,936
Deferred tax expense		
Origination and reversal of temporary differences	**2,358**	4,528
Adjustment in respect of change in tax rates	**(242)**	(1,313)
Adjustment in respect of prior years	**269**	(2)
Total deferred tax charge / (credit)	**2,385**	3,213
Tax	**8,080**	5,149

b) Tax recognised directly in equity

	2019	2018
	£'000	£'000
Current tax charge / (credit) relating to share-based payments	**(1,181)**	(55)
Deferred tax charge / (credit) relating to share-based payments	**146**	(126)
Deferred tax charge / (credit) relating to the hedging reserve	**(2,964)**	(11,425)
	(3,999)	(11,606)

Notes to the financial statements

7. Tax (continued)

c) Reconciliation of effective tax rate

The tax expense for the year is consistent with (2018: lower) the expense that would have been charged using the rate of corporation tax in the UK of 19.0% (2018: 19.0%) applied to profit before tax. The differences are explained below:

	2019	2018
	£'000	£'000
Profit before tax	**71,129**	51,872
Profit before tax multiplied by standard rate of corporation tax in the UK of 19.0% (2018: 19.0%)	**13,515**	9,856
Effects of:		
Net add-back in respect of share-based payments	**1,152**	25
Disallowance in respect of non-qualifying depreciation	**2**	1
Other permanent differences	**122**	97
Adjustment in respect of change in tax rates	**(242)**	(1,313)
(Over) under provision in respect of prior years	**269**	(2)
Group relief claimed for nil consideration	**(6,738)**	(3,515)
Tax	**8,080**	5,149

All tax relates to UK corporation tax and is settled by Sky UK Limited on the Company's behalf.

8. Dividends

Dividends are paid between Group companies out of profits available for distribution subject to, inter alia, the provisions of the companies' articles of association and the Companies Act 2006. The ESOP has waived its rights to dividends.

Notes to the financial statements

9. Intangible assets

	Internally generated intangible assets £'000	Software development (external) £'000	Software licences £'000	Other intangible assets £'000	Internally generated intangible assets not yet available for use £'000	Acquired intangible assets not yet available for use £'000	Total £'000
Cost							
At 1 July 2017	6,449	9,158	4,755	478	295	-	21,135
Additions	-	2,258	-	-	-	-	2,258
Transfers	1,004	(1,004)	-	-	-	-	-
At 30 June 2018	**7,453**	**10,412**	**4,755**	**478**	**295**	**-**	**23,393**
Additions	2,008	2,902	24	-	4,356	1,066	10,356
Transfers	4,605	1,001	-	-	(4,605)	(1,001)	-
Disposals	(468)	-	(55)	-	-	-	(523)
At 31 December 2019	**13,598**	**14,315**	**4,724**	**478**	**46**	**65**	**33,226**
Amortisation							
At 1 July 2017	(6,041)	(9,158)	(4,355)	(466)	-	-	(20,020)
Amortisation	(1)	(992)	-	1	-	-	(992)
At 30 June 2018	**(6,042)**	**(10,150)**	**(4,355)**	**(465)**	**-**	**-**	**(21,012)**
Amortisation	(824)	(402)	(8)	(11)	-	-	(1,245)
Disposals	468	-	56	-	-	-	524
At 31 December 2019	**(6,398)**	**(10,552)**	**(4,307)**	**(476)**	**-**	**-**	**(21,733)**
Carrying amounts							
At 1 July 2017	408	-	400	12	295	-	1,115
At 30 June 2018	1,411	262	400	13	295	-	2,381
At 31 December 2019	**7,200**	**3,763**	**417**	**2**	**46**	**65**	**11,493**

The Company's internally generated intangible assets relate to software development associated with our customer management systems and set-top boxes. The Company's other intangible assets mainly include copyright licenses, customer lists and relationships, and patents and brands acquired in business combinations.

The estimated future amortisation charge on intangible assets with finite lives for each of the next five years is set out below. It is likely that future amortisation will vary from the figures below as the estimate does not include the impact of any future investments, disposals or capital expenditure.

	2020 £'000	2021 £'000	2022 £'000	2023 £'000	2024 £'000
Estimated amortisation charge	**3,206**	**3,113**	**2,886**	**2,053**	**17**

10. Property, plant and equipment

	Freehold land and buildings	Leasehold improvements	Equipment, furniture and fixtures	Assets not yet available for use	Owned Set Top Boxes and Routers	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 July 2017	300	19	11,843	-	313,078	325,240
Additions	-	-	3,930	-	325,137	329,067
At 30 June 2018	**300**	**19**	**15,773**	**-**	**638,215**	**654,307**
Additions	6	-	15,436	3,043	468,533	487,018
Transfers	-	-	496	(496)	-	-
Disposals	-	-	(2,020)	-	(20,208)	(22,228)
At 31 December 2019	**306**	**19**	**29,685**	**2,547**	**1,086,540**	**1,119,097**
Depreciation						
At 1 July 2017	-	(14)	(9,726)	-	(22,966)	(32,706)
Depreciation	-	-	(587)	-	(63,506)	(64,093)
Impairment	-	-	-	-	(17,053)	(17,053)
At 30 June 2018	**-**	**(14)**	**(10,313)**	**-**	**(103,525)**	**(113,852)**
Depreciation	-	(5)	(3,191)	-	(189,385)	(192,580)
Impairment	-	-	-	-	-	-
Disposals	-	-	1,355	-	4,704	6,059
At 31 December 2019	**-**	**(19)**	**(12,149)**	**-**	**(288,206)**	**(300,374)**
Carrying amounts						
At 1 July 2017	300	5	2,117	-	290,112	292,534
At 30 June 2018	300	5	5,460	-	534,690	540,455
At 31 December 2019	**306**	**-**	**17,536**	**2,547**	**798,334**	**818,723**

Notes to the financial statements

11. Minority equity investments

Details of all investments of the Company are as follows:

Name	Country of incorporation	Description and proportion of units held (%)
Direct holdings		
Athena Court Property Unit Trust	UK	4.98% of total units

On 8 September 2008, the entire unit holdings in Athena Court Property Unit Trust ("Trust") were acquired by the Group. The Company acquired 12,100 units, representing 4.98% of the total units in the Trust for £1,214,308. The remaining 95.02% of the total units in the Trust are held by another Group company. Further detail can be found in the Post Balance Sheet Events note 26.

12. Deferred tax

Recognised deferred tax assets (liabilities)

	Hedging Reserve £'000	Fixed asset timing differences £'000	Share-based payments timing differences £'000	Short-term timing differences £'000	Total £'000
At 30 June 2017	(14,389)	(8,396)	390	275	(22,120)
(Charge) / credit to income	-	(2,942)	(205)	(66)	(3,213)
(Charge) / credit to equity	11,425	-	126	-	11,551
At 30 June 2018	(2,964)	(11,338)	311	209	(13,782)
(Charge) / credit to income	**-**	**(2,412)**	**(81)**	**107**	**(2,386)**
(Charge) / credit to equity	**2,964**	**-**	**(146)**	**-**	**2,818**
At 31 December 2019	**-**	**(13,750)**	**84**	**316**	**(13,350)**

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which they reverse. At the Statement of Financial Position date, the rates enacted or substantively enacted for the relevant periods of reversal are: 19.0% from 1 April 2017 and 17.0% from 1 April 2020 in the UK. On 11 March 2020, the Chancellor announced that in April 2020 the UK government will legislate to retain the current 19% rate. This change was substantively enacted on 17 March 2020, after the Statement of Financial Position date, and therefore is not included in these financial statements.

Notes to the financial statements

13. Inventories

	2019	2018
	£'000	£'000
Set-top boxes and related equipment	**18,016**	14,388
Other inventories	**13,980**	14,942
	31,996	29,330

At 31 December 2019, 100% (2018: 100%) of set-top boxes and related equipment classified as inventories, and other inventories, is expected to be recognised in the Income Statement within 12 months.

14. Trade and other receivables

	2019	2018
	£'000	£'000
Gross trade receivables	**226**	12,719
Less: Loss allowance	**(94)**	-
Net trade receivables	**132**	12,719
Amounts receivable from parent company	**38,517**	160,187
Amounts receivable from other Group companies	**576,319**	36,009
VAT	**3,046**	-
Prepayments	**6,872**	3,291
Accrued income	**355**	1,322
Other	**2,382**	6
Current trade and other receivables	**627,623**	213,534

The Directors consider that the carrying amount of trade and other receivables approximates their fair value.

The ageing of the Company's net trade receivables which are past due but not impaired is as follows:

	2019	2018
	£'000	£'000
Not past due date	**112**	2,466
Up to 30 days past due date	**52**	(213)
30 to 60 days past due date	**(7)**	619
60 to 120 days past due date	**5**	6,912
More than 120 days past due date	**(30)**	2,935
	132	12,719

Notes to the financial statements

14. Trade and other receivables (continued)

Allowance for doubtful debts

	2019	2018
	£'000	£'000
Balance at beginning of year	-	-
Amounts utilised	-	-
Income Statement charge	(94)	-
Balance at end of year	**(94)**	-

Amounts receivable from the parent company Sky UK Limited total £38,517,000 at 31 December 2019 (30 June 2018: £160,187,000).

All other amounts receivable from other Group companies are trade balances that total £576,319,000 at 31 December 2019 (30 June 2018: £36,009,000). These balances are non-interest bearing and are repayable on demand.

The Company is exposed to credit risk on its trade and other receivables, however the Company does not have any significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers.

Within the Company there is a concentration of risk within amounts receivable from other Group companies. No allowances have been recorded against amounts receivable from Group companies as they have been assessed to be fully recoverable.

Notes to the financial statements

15. Trade and other payables

	2019 £'000	2018 £'000
Trade payables	**7,985**	8,024
Amounts payable to other Group companies[a]	**1,057,716**	423,199
Amounts payable to ultimate parent company	**2,148**	-
Accruals	**23,500**	25,189
Deferred income	**1,934**	-
VAT	**1,303**	226
Social Security & PAYE	**4,134**	3,149
Other	**1,069**	1,169
	1,099,789	460,956

(a) In June 2009 the Company entered into a revolving credit facility ("RCF") with Sky Operational Finance Limited whereby it is the borrower and Sky Operational Finance Limited is the lender. This RCF is non-interest bearing and is repayable on demand. At 31 December 2019 the balance of this RCF was £131,590,000 (30 June 2018: £131,590,000), which is included within amounts owed to other Group companies.

In July 2009 the Company entered into a loan agreement with Sky Operational Finance Limited whereby it is the borrower and Sky Operational Finance Limited is the lender. At 31 December 2019 the balance of this loan was £47,320,000 (30 June 2018: £47,320,000).

Other trade balances due to other Group companies totalling £878,806,000 (2018: £244,288,000) are repayable on demand and bear no interest.

The Directors consider that the carrying amount of trade and other payables approximates their fair values. Trade payables principally comprise amounts outstanding for ongoing costs.

16. Provisions

	At 1 July 2017 £'000	Provided during the year £'000	Utilised during the year £'000	At 30 June 2018 £'000	**Provided during the year £'000**	**Utilised during the year £'000**	**At 31 December 2019 £'000**
Current liabilities							
Customer-related provisions[a]	33,689	(10,608)	(6,368)	16,713	**86,286**	**(68,127)**	**34,872**
Other provisions[b]	21,813	(5,872)	(155)	15,786	**283**	**(11,070)**	**4,999**
	55,502	(16,480)	(6,523)	32,499	**86,569**	**(79,197)**	**39,871**
Non-current liabilities							
Other provisions	-	-	-	-	**724**	**-**	**724**

(a) These provisions are for those costs incurred in the one-off upgrade of set-top boxes and the programme to replace selected Sky Broadband router devices.

(b) Included in other provisions are amounts provided for legal disputes, warranty liabilities and out of warranty constructive liabilities.

Notes to the financial statements

17. Derivatives and other financial instruments

Set out below are the derivative financial instruments entered into by the Company to manage its interest rate and foreign exchange risks.

	2019				2018			
	Asset		**Liabilities**		Asset		Liabilities	
	Fair value	**Notional**	**Fair value**	**Notional**	Fair value	Notional	Fair value	Notional
	£'000	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000
Cash flow hedges:								
Forward foreign exchange contracts	-	-	-	-	6,182	240,863	(1,029)	101,496

The maturity of the derivative financial instruments is as follows:

	2019		2018	
	Asset	**Liability**	Asset	Liability
	£'000	**£'000**	£'000	£'000
In one year or less	-	-	6,182	(1,029)
Between one and two years	-	-	-	-
Between two and four years	-	-	-	-
Total	-	-	6,182	(1,029)

At 31 December 2019, the carrying value of financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss was £nil (2018: £6,182,000).

The Company's portfolio of forward rate derivatives was diversified by maturity. The designation of certain derivatives as hedges significantly reduce the risk of income statement volatility.

The Sky Group treasury function is responsible for liquidity management, and the management of foreign exchange, interest rate and credit risks. The Sky Group is financed through a combination of equity and loan facilities from the Comcast Group. Treasury operations are conducted within a framework of policies and guidelines issued by Comcast Corporation. Derivative instruments are transacted for risk management purposes only. It is the Group's policy that all hedging is to cover known risks and that no speculative trading in financial instruments is undertaken. Regular and frequent reporting to management is required for all transactions and exposures, and the internal control environment is subject to periodic review.

The Group's principal market risks are exposures to changes in interest rates and foreign exchange rates, which arise both from the Group's sources of finance and from its operations. Following evaluation of those market risks, the Group selectively enters into derivative financial instruments to manage these exposures. The principal instruments previously used were forward exchange contracts to hedge transactional and translational currency exposures.

Notes to the financial statements

17. Derivatives and other financial instruments (continued)

Financial Instruments

(a) Carrying value and fair value

The Company's principal financial instruments comprise trade and other payables and provisions. The Company has various financial assets such trade and other receivables, cash and cash equivalents and derivative financial instruments.

The accounting classification of each class of the Company's financial assets and liabilities, together with their fair values is as follows:

	Financial Assets at		**Financial Liabilities at**			
	Amortised cost	Fair value	Amortised cost	Fair value	Total carrying value	Total fair values
	£'000	£'000	£'000	£'000	£'000	£'000
At 31 December 2019						
Derivative financial instruments	-	-	-	-	-	-
Trade and other payables	-	-	**(1,092,418)**	-	**(1,092,418)**	**(1,092,418)**
Provisions	-	-	**(39,871)**	-	**(39,871)**	**(39,871)**
Trade and other receivables	**627,622**	-	-	-	**627,622**	**627,622**
Cash and cash equivalents	**3,753**	-	-	-	**3,753**	**3,753**
At 30 June 2018						
Derivative financial instruments	-	6,182	-	-	(1,029)	5,153
Trade and other payables	-	-	(460,956)	-	(460,956)	(460,956)
Provisions	-	-	(32,499)	-	(32,499)	(32,499)
Trade and other receivables	210,243	-	-	-	210,243	210,243
Cash and cash equivalents	5,223	-	-	-	5,223	5,223

17. Derivatives and other financial instruments (continued)

(a) Carrying value and fair value (continued)

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

• The fair value of financial assets and financial liabilities with standard terms and conditions and which are traded on active liquid markets is determined with reference to quoted market prices;

• The fair value of other financial assets and financial liabilities (excluding derivative instruments) was determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

The differences between carrying values and fair values reflect unrealised gains or losses inherent in the financial instruments, based on valuations as at 31 December 2019 and 30 June 2018. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

Cash and cash equivalents classified as loans and receivables mainly comprise investments in AAA rated money market funds which can be withdrawn without notice.

(b) Fair value hierarchy

The following table categorises the Company's financial instruments which were held at fair value into 1 of 3 levels to reflect the degree to which observable inputs are used in determining their fair values.

	Fair value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
At 31 December 2019				
Assets measured at fair value				
Forward foreign exchange and option contracts	-	-	-	-
Liabilities measured at fair value				
Forward foreign exchange and option contracts	-	-	-	-
At 30 June 2018				
Assets measured at fair value				
Forward foreign exchange and option contracts	6,182	-	6,182	-
Liabilities measured at fair value				
Forward foreign exchange and option contracts	(1,029)	-	(1,029)	-

Level 1
Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2
Fair values measured using inputs, other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Derivative financial instrument fair values are present values determined from future cash flows discounted at rates derived from market source data.

Level 3
Fair values measured using inputs for the asset or liability that are not based on observable market data.

Notes to the financial statements

18. Financial risk management objectives and policies

The Sky Group's Treasury function is responsible for raising finance for the Company's operations, together with associated liquidity management and management of foreign exchange, interest rate and credit risks. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed by both the Audit Committee and the Board, which receive regular updates of Treasury activity. Derivative instruments are transacted for risk management purposes only. It is the Sky Group's policy that all hedging is to cover known risks and no speculative trading is undertaken. Regular and frequent reporting to management is required for all transactions and exposures, and the internal control environment is subject to periodic review by the Group's internal audit team.

The Sky Group's principal market risks are exposures to changes in interest rates and foreign exchange rates, which arise both from the Sky Group's sources of finance and its operations. Following evaluation of those market risks, the Group selectively enters into derivative financial instruments to manage these exposures. The principal instruments currently used are interest rate swaps to hedge interest rate risks, and cross currency swaps and forward foreign exchange contracts to hedge transactional and translational currency exposures.

Capital Risk Management

The capital structure of the Company consists of equity attributable to equity holders of the parent company, comprising issued capital, reserves and retained earnings. Risk and treasury management is governed by Sky Limited's policies approved by its Board of Directors.

Credit risk

The Company is exposed to default risk amounting to cash and cash equivalents of £3,753,000 (2018: £5,223,000). The Company's maximum exposure to credit risk on trade receivables is the carrying amounts disclosed in note 14

Foreign exchange risk

The Company's revenues are substantially denominated in pounds sterling.

During the year, a significant proportion of the USD operating costs associated with the purchase of set-up boxes and other hardware from Sky CP Limited have been redenominated to Sterling. All US dollar-denominated forward exchange contracts entered into by the Company were in respect of highly probably cashflows. At 31 December 2019, the Company had no outstanding commitments to purchase US Dollars. (2018: US $452 million at an average rate of US$1.35 to £1.00).

Notes to the financial statements

18. Financial risk management objectives and policies (continued)

Foreign exchange sensitivity

The following analysis details the Company's sensitivity to movements in pounds sterling against all currencies in which it has significant transactions. The sensitivity analysis includes only outstanding foreign currency denominated financial instruments and adjusts their translation at the period end for a 25% change in foreign currency rates.

- A 25% strengthening in pounds sterling against the US dollar would have the effect of reducing profit by £2m (2018: £nil million). The same strengthening would have no effect on other equity (2018: adverse £68 million).
- A 25% weakening in pound sterling against the US dollar would have effect of increasing profit by £3m (2018: £nil million). The same weakening would have no effect on other equity (2018: benefit £114 million).

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Company's actual exposure to market rates is constantly changing as the Company's portfolio of debt, foreign currency and equity contracts changes. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company. The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

Liquidity risk

The Company's financial liabilities are shown in notes 15 and 16.

The following table analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The amounts disclosed may not reconcile to the amounts disclosed on the Balance Sheet for borrowings, derivative financial instruments, provisions and trade and other payables.

	Less than 12 months £'000	Between one and two years £'000	Between two and five years £'000	More than five years £'000
At 31 December 2019				
Non-derivative financial liabilities				
Trade and other payables	**1,092,418**	**-**	**-**	
Provisions	**39,871**	**-**	**724**	
At 30 June 2018				
Non-derivative financial liabilities				
Trade and other payables	460,956	-	-	
Provisions	32,499	-	-	
Gross settled derivatives				
Outflow	334,452	-	-	
Inflow	(342,359)	-	-	

Notes to the financial statements

19. Share capital

	2019 £'000	2018 £'000
Allotted, called-up and fully paid		
1,576,000 (2018: 1,576,000) ordinary shares of £1 each	**1,576**	1,576

The Company has one class of ordinary shares which carries equal voting rights and no contractual right to receive payment.

Share option and contingent share award schemes

The Company operates various equity-settled share option schemes (the "Schemes") for certain employees, using shares in the Company's ultimate parent company, previously Sky Limited (formerly Sky plc) and now Comcast Corporation. After the acquisition of the Sky Group by Comcast Corporation on the 9th of October 2018, the previous share schemes operated by Sky were settled. New awards were granted under the Restricted Stock Units schemes operated by Comcast Corporation.

The share awards outstanding can be summarised as follows:

Scheme	2019 Number of ordinary shares	2018 Number of ordinary shares
Sharesave Scheme options (i)	**292,946**	1,425,443
Management LTIP awards (ii)	-	2,674
Management Co-Investment LTIP awards (iii)	-	3,796
	-	1,431,913

(i) Sharesave Scheme options

All Sharesave Scheme options outstanding at 31 December 2019 and 30 June 2018 have no performance criteria attached, other than the requirement that the employee remains in employment with Sky. Options granted under the Sharesave Scheme are to be exercised within six months of the relevant award vesting date.

The Sharesave Scheme is open to all employees. Options are normally exercisable after either three or five years from the date of grant. The price at which options are offered is not less than 80% of the middle-market price on the dealing day immediately preceding the date of invitation.

(ii) Management LTIP awards

All Management LTIP awards outstanding at 30 June 2018 vested only if performance conditions were met. Awards granted under the Management LTIP were to be exercised within one year of the relevant award vesting date.

The Company granted awards to selected employees under the Management LTIP. Awards under this scheme mirrored the LTIP, with the same performance conditions. Awards exercised under the Management LTIP can only be satisfied by the issue of market-purchased shares.

(iii) Management Co-Investment LTIP awards

All Management Co-Investment LTIP awards outstanding at 30 June 2018 vested only if performance conditions were met. Awards granted under the Management Co-Investment LTIP were to be exercised within five years of the relevant award vesting date.

The Company granted awards to selected employees under the Management Co-Investment LTIP. Awards under this scheme mirrored the Co-Investment LTIP, with the same performance conditions.

Notes to the financial statements

19. Share capital (continued)

Share option and contingent share award schemes

For the purposes of the disclosure below, the Management LTIP, LTIP, Co-Investment Management LTIP and Co-Investment LTIP awards ("Senior Management Schemes") have been aggregated.

The movement in share awards outstanding is summarised in the following table:

	Sharesave Scheme		Senior Management Schemes		Total	
	Number of shares under option	Weighted average exercise price	Number of shares under option	Weighted average exercise price	Number of shares under option	Weighted average exercise price
	Number	£	Number	£	Number	£
Outstanding at 1 July 2017	1,316,393	7.21	91,272	0.00	1,407,666	6.74
Granted during the year	610,220	7.52	-	0.00	610,220	7.52
Exercised during the year	(286,552)	6.98	(83,672)	0.00	(370,224)	5.40
Forfeited during the year	(205,098)	7.33	(1,130)	0.00	(206,228)	7.29
Expired during the year	(9,520)	6.77	-	0.00	(9,520)	6.77
Outstanding at 30 June 2018	**1,425,443**	**7.37**	**6,470**	**0.00**	1,431,913	7.34
Granted during the period	**292,946**	**27.26**	**-**	**-**	**292,946**	**27.26**
Cancelled during the period	**-**	**-**	**-**	**-**	**-**	**-**
Expired during the period	**(1,425,443)**	**7.37**	**(6,470)**	**-**	**(1,431,913)**	**7.34**
Outstanding at 31 December 2019	**292,946**	**27.26**	**-**	**-**	**292,946**	**27.26**

The weighted average market price of Sky's shares at the date of exercise for share options exercised during the period was £17.28 (2018: £9.46).

19. Share capital (continued)

Share option and contingent share award schemes (continued)

The following table summarises information about share awards outstanding at 31 December 2019:

	Sharesave Scheme		Senior management schemes		Total	
	2019	**2019**	**2019**	**2019**	**2019**	**2019**
		Weighted average remaining contractual life		**Weighted average remaining contractual life**		**Weighted average remaining contractual life**
Range of Exercise Prices	**Number**	**Years**	**Number**	**Years**	**Number**	**Years**
£27.00 - £28.00	292,946	3.51	-	-	292,946	3.51
	292,946	**3.51**	**-**	**-**	**292,946**	**3.51**

	2018	**2018**	**2018**	**2018**	**2018**	**2018**
Range of Exercise Prices	**Number**	**Years**	**Number**	**Years**	**Number**	**Years**
£0.00 - £1.00	-	-	6,470	4.4	6,470	4.4
£6.00 - £7.00	534,507	2.4			534,507	2.4
£7.00 - £8.00	636,127	3.3			636,127	3.3
£8.00-£9.00	254,809	1.5			254,809	1.5
	1,425,443	**2.6**	**6,470**	**4.4**	**1,431,913**	**2.6**

The exercise prices of options outstanding at 31 December 2019 was nil as no options were outstanding (2018: £nil to £8.17).

19. Share capital (continued)

Information for awards granted during the period

The weighted average fair value of share options granted during the period, as estimated at the date of grant, was £18.19 (2018: £3.61). This was calculated using the Black-Scholes share option pricing model except for awards which have market-based performance conditions, where a Monte-Carlo simulation model was used, and for grants of nil-priced options, which were treated as the award of a free share. The fair value of nil-priced options granted during the period was measured on the basis of the market-price of Sky's shares on the date of grant, discounted for expected dividends which would not be received over the vesting period of the options.

Expected volatility was determined by calculating the historical volatility of the Company's share price, over a period equal to the expected life of the options. Expected life was based on the contractual life of the awards and adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

Weighted average fair value assumptions

The weighted average fair value of equity-settled share awards granted during the year under the Sharesave Scheme, as estimated at the date of grant, was £8.47 (2018: £1.90). This was calculated using the Black-Scholes share option pricing model.

The following weighted average assumptions were used in these option pricing models:

	2019	2018
Share price	**£33.92**	£9.30
Exercise price	**£27.26**	£7.52
Expected volatility	**22.8%**	22.6%
Expected life	**3.6 years**	3.8
Expected dividend	**1.9%**	1.6%
Risk-free interest rate	**1.6%**	0.7%

20. Shareholders' equity

	2019 **£'000**	2018 £'000
Share capital	**1,576**	1,576
Share premium	**56**	56
Hedging reserve	**-**	14,471
Retained earnings	**339,436**	273,950
	341,068	290,053

Hedging reserve

Changes in the fair values of derivatives that were designated as cash flow hedges were initially recognised in the hedging reserve, recorded in initial cost of the non-financial asset and subsequently recognised in the Income Statement when the related hedged items were recognised in the Income Statement. In addition, deferred tax relating to these derivatives was also initially recognised in the hedging reserve prior to transfer to the Income Statement.

Notes to the financial statements

21. Notes to the Cash Flow Statement

Reconciliation of profit before tax to cash generated from operations

	2019	2018
	£'000	£'000
Profit before tax	**71,129**	51,872
Depreciation and impairment of property, plant and equipment	**192,580**	81,146
Amortisation of intangible assets	**1,245**	992
Loss on disposal of intangible assets and property, plant and equipment	**16,171**	-
Share-based payment expense	**1,402**	728
Investment income	**(3,503)**	(4,001)
Net finance costs	**17,710**	-
	296,734	130,737
(Increase)/decrease in trade and other receivables	**(418,602)**	136,069
(Increase) in inventories	**(2,666)**	(6,216)
Increase in trade and other payables	**636,687**	147,653
Increase/(decrease) in provisions	**8,096**	(23,004)
(Decrease) in derivative financial instruments	**(26,612)**	(54,870)
Cash from operations	**493,637**	330,369

22. Contracted commitments, contingencies and guarantees

Future minimum expenditure contracted for but not recognised in the financial statements

	Less than one year	**Between one and five years**	**After five years**	**Total at 31 December 2019**	Total at 30 June 2018
	£'000	**£'000**	**£'000**	**£'000**	£'000
Property, plant and equipment	444	-	-	**444**	225
Intangible assets	17	-	-	**17**	-
Licences and other	1,418	1,272	-	**2,690**	3,185
Total	**1,879**	**1,272**	**-**	**3,151**	3,410

23. Operating lease commitments

The minimum lease rentals to be paid under non-cancellable operating leases at 31 December are as follows:

	2019	2018
	£'000	£'000
Within one year	**11,677**	7,672
Between one and two years	**11,071**	5,662
Between two and three year	**9,973**	4,868
Between three and four years	**7,380**	4,589
Between four and five years	**3,597**	2,520
After five years	**335**	23
	44,033	25,334

The majority of operating leases relate to plant and machinery in relation to engineers' vans.

24. Transactions with related parties and major shareholders of Sky

a) Key management

The Company has a related party relationship with the Directors of the Company. At 31 December 2019, there were 2 (2018: 2) members of key management, both of whom were Directors of the Company. Key management compensation is disclosed in note 6.

b) Transactions with other Group companies

The Company conducts business transactions with other Group undertakings:

	2019	2018
	£'000	£'000
Supply of services by the Company:	**855,735**	397,350
Sky UK	**754,625**	356,496
Sky Europe	**101,110**	40,853
Purchases of goods/services by the Company:	**(515,714)**	(491,521)
SSSL	**(16,369)**	(16,389)
Sky CP	**(499,345)**	(475,132)

For details of amounts owed by and owed to other Group companies, see note 14 and note 15.

Principal services supplied to fellow subsidiary undertakings:

- Installation and maintenance of satellite television receiving and related equipment to Sky UK Limited.

Principal goods/services purchased from fellow Group companies:

- Subscriber management services supplied by Sky Subscribers Services Limited of £16,369,000 (2018: £16,389,000)

- Inventories, owned set-top boxes, logistics, repairs and related expenses supplied by Sky CP Limited of £499,345,000 (2018: £475,132,000)

The Group's treasury function is responsible for liquidity management across the Group's operations. It is standard practice for the Company to lend and borrow cash to and from subsidiaries as required. Under this policy, Sky UK Limited increased liabilities of £636,665 million (2018 settled liabilities: £138,137 million) on behalf of the Company during the period.

24. Transactions with related parties and major shareholders of Sky (continued)

c) Forward contracts with Sky UK Limited

Sky UK Limited took out a number of forward contracts with counterparty banks prior to and during the period on behalf of the Company. On the same dates as these forward contracts were entered into, the Company entered into equal and opposite contracts with Sky UK Limited in respect of these forward contracts.

The face value of the forward contracts that had not matured as at 31 December 2019 was £nil (2018: £342 million).

During the period, US$496 million (2018: US$511 million) was received from Sky UK Limited upon maturity of forward exchange contracts and £368 million (2018: £381 million) was paid to SIHS upon maturity of forward exchange contracts.

25. Ultimate parent undertaking

The company is a wholly-owned subsidiary undertaking of Sky UK Ltd, a company incorporated in the United Kingdom and registered in England and Wales. The Company's ultimate parent company and the largest group in which the results of the company are consolidated is Comcast Corporation, a company incorporated in Pennsylvania, United States.

The Company is ultimately controlled by Comcast and operates together with Comcast's other subsidiaries, as a part of the Comcast Group (the "Group"). The only group in which the results of the Company are consolidated is that headed by Comcast.

The consolidated financial statements of the Group are available to the public and may be obtained from Company Investor Relations at Comcast Corporation, One Comcast Center, Philadelphia, PA 19013, USA. Or at:

https:\\www.cmcsa com

26. Post Balance Sheet Event

COVID-19

Subsequent to 31 December 2019, the novel COVID-19 outbreak was declared a pandemic, and measures taken to prevent its spread are impacting Sky's business in a number of ways. The impacts of COVID-19 on the Company's business activities are set out in the Strategic Report.

Athena Court

On 30 March 2020 the Company sold a 4.97% holding in the Athena Court Property Unit Trust ("the Trust") to Sky Subscribers Services Limited for £1,211,899, retaining a holding of 0.01% of the units in the Trust.

On 31 March 2020 the Trust was terminated.