

# SKY UK LIMITED

Annual report and financial statements  
For the year ended 30 June 2017

Registered number: 02906991

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## Directors and Officers

For the year ended 30 June 2017

### **Directors**

Sky UK Limited's ("the Company") present Directors and those who served during the year are as follows:

A J Griffith

C J Taylor

### **Secretary**

C J Taylor

### **Registered office**

Grant Way

Isleworth

Middlesex

TW7 5QD

### **Auditor**

Deloitte LLP

Statutory Auditor

London

United Kingdom

# Strategic and Directors' Reports

## Strategic Report

The Directors present their Strategic and Directors' Reports on the affairs of the Company, together with the financial statements and Auditor's Report for the year ended 30 June 2017.

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 plc ("Sky") and operates together with Sky's other subsidiaries as a part of the Sky Group ("the Group").

The Company operates the leading pay television broadcasting service in the United Kingdom ("UK") and Ireland as well as broadband and telephony services. The Company's principal activities consist of the operation and distribution of wholly-owned television channels via a direct-to-home ("DTH") service and it supplies certain of those channels to cable operators for retransmission to their subscribers in the UK and Ireland.

At 30 June 2017, the total number of customers was 12,726,000 (2016: 12,446,000), representing a net increase of 280,000 customers in the current year.

This year the Company made an operating profit of £109 million (2016: £267 million). The operating margin decreased to 1.37% in 2017 (2016: 3.43%).

The total revenue in 2017 was £7,925 million, a 1.70% growth from fiscal 2016 (2016: £7,792 million). The Company's revenue can be analysed as follows:

| For the year to 30 June     | 2017<br>£m   | 2016<br>£m   |
|-----------------------------|--------------|--------------|
| Subscription                | 6,663        | 6,575        |
| Transactional               | 162          | 142          |
| Programme and Channel Sales | 566          | 530          |
| Advertising                 | 463          | 477          |
| Other                       | 71           | 68           |
| <b>Revenue</b>              | <b>7,925</b> | <b>7,792</b> |

The increase of £88 million in subscription revenue in the current year was driven by a higher customer base and increased product take-up including Sky Fibre, Sky Q and Sky Mobile and the impact of pricing taken in the year.

Transactional revenue increased by £20 million in the current year due to the launch of Box Sets within Sky Store.

Programme and Channel Sales revenue increased by £36 million in the current year as success on screen led to more favourable terms for our channels with wholesale partners.

Advertising revenue decreased by £14 million in the current year due to lower Media Spot revenues as a result of the weakness in the UK advertising market.

## Strategic and Directors' Reports (continued)

### Business review and principal activities (continued)

Other revenue increased by £3 million in the current year.

### Operating expenses for the year

The Company's operating expense can be analysed as follows:

#### For the year to 30 June

|                                   | 2017<br>£m   | 2016<br>£m   |
|-----------------------------------|--------------|--------------|
| Programming                       | 3,381        | 2,851        |
| Direct network costs              | 25           | 1            |
| Sales, general and administration | 4,410        | 4,673        |
| <b>Operating expenses</b>         | <b>7,816</b> | <b>7,525</b> |

The increase of £530 million in programming costs is mainly due to the one-time step up in the new three year Premier League contract, increase in seasonal sports events such as the biennial Ryder Cup and the quadrennial British and Irish Lions tour in the UK.

The decrease of £263 million in sales, general and administration costs is mainly due to increased set-top box reliability and repair, deflection of an increased number of calls to digital channels, reduction in more than 10% of non customer facing roles in the UK as well as the benefit of capitalising rather than fully expensing Sky Q box costs.

Net assets at the balance sheet date were £1,497 million, a decrease of £244 million from £1,741 million at 30 June 2016. The decrease in the net assets during the year is primarily due to a decrease in intercompany loans receivable.

During the year, as part of a Group funding exercise, the company subscribed to £21 million of shares in Sky International Operations Limited ("SIOL").

During the prior year, the Company agreed to waive an intercompany loan receivable with SIOL in return for increasing its investment in SIOL by £245 million.

During the prior year, as part of a Group funding exercise, the company subscribed to £12 million of shares in SIOL.

Current assets decreased in the year by £2,385 million to £11,714 million (2016: £14,099 million). The decrease is primarily due to a decrease in intercompany loans receivable.

## Strategic and Directors' Reports (continued)

### **Business review and principal activities (continued)**

The audited accounts for the year ended 30 June 2017 are set out on pages 12 to 76. The Directors do not recommend the payment of a final dividend for the year ended 30 June 2017 (2016: nil). For the year ended 30 June 2017 there was a £267 million interim distribution made to Sky plc (2016: £671 million). The distribution was settled by the assignment of intercompany debt within the Group.

There have not been any significant changes in the Company's activities in the year under review. The Directors are not aware, at the date of this report, of any likely major changes in the Company's activities in the next year.

On 17 November 2015, Sky plc issued €500 million of 2.25% Euro denominated bonds due November 2025 to which the Company acts as guarantor.

### **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.

The Group's KPIs are disclosed separately in the Group's Annual Report. Please see note 28 for details of where this is available.

### **Principal risks and uncertainties**

The Company's business is heavily regulated and changes in regulations, changes in interpretation of existing regulations or failure to obtain required regulatory approvals or licences could adversely affect the Company's ability to operate or compete effectively. The Company's business is reliant on technology which is subject to the risk of failure, change and development. The Company operates in a highly competitive environment that is subject to rapid change and it must continue to invest to remain competitive. The failure of key suppliers could affect the Company's ability to operate as a business. The Company relies on a number of third parties and outsourced suppliers to support its supply chain. The Company's business is based on a subscription model and its future success relies on building long-term relationships with its customers. The Company generates wholesale revenue principally from one customer.

The Group's principal risks and uncertainties are disclosed in the Group's Annual Report, please see note 28 for further information.

### **Financial risk management objectives and policies**

The Company's activities expose it to a number of financial risks including market risk, credit risk and liquidity risk. 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. Refer to note 21 for further information.

### **Market Risk**

The Company's principal market risks are exposure to changes in interest rates and foreign exchange rates, which arise both from the Company's sources of finance and its operations.

#### **Interest rate risk**

The Company has financial exposure to UK and European interest rates arising from the investment of surplus cash, interest rate derivatives transacted on behalf of the group 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.

## Strategic and Directors' Reports (continued)

### 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 and options to hedge these exposures. Refer to note 21 for further information.

### Price Risk

The Company is not exposed to significant price risk.

### Credit risk

The Company's principal financial assets are cash, cash equivalents, short-term deposits, trade and other receivables and derivative financial assets.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. This is recognised when there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on cash, cash equivalents, and short-term deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. No more than 10% of cash deposits are held with a single bank counterparty, with the exception of overnight deposits which are invested in a spread of AAA-rated liquidity funds. The balance sheet of the Company includes intercompany balances and the Company is therefore exposed to credit risk on these balances. The intercompany balances of the Company are detailed in notes 15 and 16.

The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers, other than 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 Group currently has access to an undrawn £1 billion revolving credit facility which is due to expire on 30 November 2021. The Company benefits from this liquidity through intra-group facilities and loans.

### Employment policies

#### Organisation

Over the past year, 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 year was 6,721 (2016: 6,732).

## Strategic and Directors' Reports (continued)

### 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.

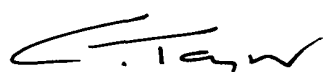
#### Inclusion

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 have put in place a range of initiatives to achieve this ambition and they're already making a difference. For example, we have increased the number of women in the top 400 positions from 32% to 39%. 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 new 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 year we used a new survey provider, GLINT, to gather feedback from our teams in the UK and ROI. We achieved record levels of participation in the survey (82% in the UK and ROI) and we continue to achieve high levels of engagement, outperforming external benchmarks by 8% in the UK and ROI.

By Order of the Board,



C Taylor  
Director  
Grant Way  
Isleworth  
Middlesex  
TW7 5QD

| November 2017

## Strategic and Directors' Reports (continued)

### Directors' Report

The Directors who served during the year are shown on page 1.

The Directors do not recommend the payment of a final dividend in the current year (2016: 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 Directors' report.

### Going concern

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. In making this decision the Directors have considered the net current liability position of the company, and confirmation received from Sky In-Home Service Limited, Sky Telecommunications Services Limited and Sky plc, for at least 12 months from the date of signing these financial statements, they will not demand payment of any amounts owed to them by the company where such repayment would prevent the company from continuing to settle its third party liabilities as they fall due. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

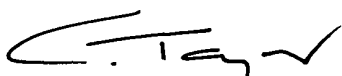
### Auditor

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 he ought to have taken as a Director to make himself 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 1 November 2017.

By Order of the Board,



C Taylor  
Director  
Grant Way  
Isleworth  
Middlesex  
TW7 5QD

1 November 2017

## 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 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 UK Limited:**

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2017 and of its profit for the year 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 UK Limited (the 'company') 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 29.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (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 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.

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.

## Auditor's Report

### 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 Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### 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.

### 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 year 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.

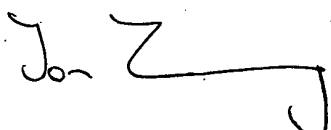
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

#### 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.



Jon Young (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
01 November 2017

## Income statement

For the year ended 30 June 2017

|   | Notes | 2017<br>£m     | 2016<br>£m |
|---|-------|----------------|------------|
| <b>Revenue</b>  | 2     | <b>7,925</b>   | 7,792      |
| Operating expense   | 3     | <b>(7,816)</b> | (7,525)    |
| <b>Operating profit</b>                                       |       | <b>109</b>     | 267        |
| Investment income   | 5     | <b>140</b>     | 134        |
| Finance costs   | 5     | <b>(190)</b>   | (224)      |
| Impairment of investment                                      | 4     | <b>(7)</b>     | (5)        |
| <b>Profit before tax</b>                                      | 6     | <b>52</b>      | 172        |
| Tax   | 8     | <b>11</b>      | (23)       |
| <b>Profit for the year attributable to equity shareholder</b> |       | <b>63</b>      | 149        |

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

All results relate to continuing operations.

# Statement of comprehensive income

For the year ended 30 June 2017

|  | 2017<br>£m  | 2016<br>£m |
|--|-------------|------------|
| <b>Profit for the year attributable to equity shareholder</b>  | <b>63</b>   | 149        |
| <b>Other comprehensive income</b>  |             |            |
| <b>Amounts recognised directly in equity that may subsequently be recycled to the income statement</b> |             |            |
| Gain on revaluation of available-for-sale investments  | -           | 1          |
| Gain on cash flow hedges (see note 20)   | 25          | 178        |
| Tax charge on cash flow hedges (see note 8)  | (3)         | (35)       |
|  | 22          | 144        |
| <b>Amounts reclassified and reported in the income statement</b>                                       |             |            |
| Gain on cash flow hedges (see note 20)   | -           | (1)        |
|  | -           | (1)        |
| <b>Amounts reclassified and reported in non financial assets (basis adjustment)</b>                    |             |            |
| Gain on cash flow hedges (see note 20)   | (86)        | (2)        |
| Tax on cash flow hedges (see note 8)   | 17          | 1          |
|  | (69)        | (1)        |
| <b>Other comprehensive (loss)/profit for the year (net of tax)</b>                                     | <b>(47)</b> | 142        |
| <b>Total comprehensive income for the year attributable to equity shareholder</b>                      | <b>16</b>   | 291        |

All results relate to continuing operations.

## Balance sheet

|  | Notes | 2017<br>£m    | 2016<br>£m    |
|--|-------|---------------|---------------|
| As at 30 June 2017                                     |       |               |               |
| <b>Non-current assets</b>                              |       |               |               |
| Intangible assets                                      | 9     | 254           | 244           |
| Goodwill   | 10    | 88            | 88            |
| Property, plant and equipment                          | 11    | 903           | 856           |
| Deferred tax assets                                    | 13    | 18            | -             |
| Trade and other receivables                            | 15    | 8             | 83            |
| Investment in subsidiaries                             | 12    | 5,053         | 4,970         |
| Investments in joint ventures and associates           | 12    | 90            | 90            |
| Derivative financial assets                            | 20    | 560           | 664           |
| Available-for-sale investments                         | 20    | 3             | 1             |
|  |       | <b>6,977</b>  | <b>6,996</b>  |
| <b>Current assets</b>                                  |       |               |               |
| Inventories  | 14    | 636           | 579           |
| Trade and other receivables                            | 15    | 8,609         | 11,224        |
| Short-term deposits                                    | 20    | 300           | -             |
| Cash and cash equivalents                              | 20    | 2,129         | 2,094         |
| Derivative financial assets                            | 20    | 40            | 202           |
|  |       | <b>11,714</b> | <b>14,099</b> |
| <b>Total assets</b>                                    |       | <b>18,691</b> | <b>21,095</b> |
| <b>Current liabilities</b>                             |       |               |               |
| Trade and other payables                               | 16    | 16,152        | 18,215        |
| Borrowings   | 19    | -             | 6             |
| Current tax liabilities                                |       | 137           | 134           |
| Provisions   | 17    | 15            | 58            |
| Derivative financial liabilities                       | 20    | 33            | 124           |
|  |       | <b>16,337</b> | <b>18,537</b> |
| <b>Non-current liabilities</b>                         |       |               |               |
| Trade and other payables                               | 18    | 60            | 48            |
| Borrowings   | 19    | -             | 1             |
| Provisions   | 17    | 12            | 18            |
| Derivative financial liabilities                       | 20    | 785           | 740           |
| Deferred tax liabilities                               | 13    | -             | 10            |
|  |       | <b>857</b>    | <b>817</b>    |
| <b>Total liabilities</b>                               |       | <b>17,194</b> | <b>19,354</b> |
| Share capital  | 22    | 10            | 10            |
| Reserves   | 23    | 1,487         | 1,731         |
| <b>Total equity attributable to equity shareholder</b> | 23    | <b>1,497</b>  | <b>1,741</b>  |
| <b>Total liabilities and shareholder's equity</b>      |       | <b>18,691</b> | <b>21,095</b> |

The accompanying notes are an integral part of this Balance Sheet. The financial statements of Sky UK Limited, registered number 02906991 were approved by the Board of Directors on 1 November 2017 and were signed on its behalf by:

 A J Griffiths, Director, 1 November 2017

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## Cash flow statement

For the year ended 30 June 2017

|   | Note | 2017<br>£m   | 2016<br>£m   |
|---|------|--------------|--------------|
| <b>Cash flows from operating activities</b>                           |      |              |              |
| Cash generated from operations  | 24   | 1,281        | 930          |
| Interest received   |      | 24           | 9            |
| Tax paid  |      | (153)        | (186)        |
| <b>Net cash from operating activities</b>                             |      | <b>1,152</b> | <b>753</b>   |
| <b>Cash flows from investing activities</b>                           |      |              |              |
| Funding to the Group's joint ventures and associates                  |      | (8)          | (8)          |
| Dividends received from the Group's joint ventures and associates     |      | 20           | 20           |
| Purchase of property, plant and equipment                             |      | (129)        | (206)        |
| Purchase of intangible assets   |      | (78)         | (69)         |
| Purchase of subsidiaries (net of cash and cash equivalents purchased) |      | (24)         | (5)          |
| Purchase of available-for-sale investments                            |      | (2)          | -            |
| (Increase)/decrease in short-term deposits                            |      | (300)        | 1,100        |
| <b>Net cash (used in)/from investing activities</b>                   |      | <b>(521)</b> | <b>832</b>   |
| <b>Cash flows generated from financing activities</b>                 |      |              |              |
| Net proceeds from Group borrowings                                    |      | -            | 353          |
| Purchase of shares for Group ESOP                                     |      | -            | (200)        |
| Interest paid on behalf of the Sky Group                              |      | (238)        | (229)        |
| Dividends paid on behalf of Sky plc                                   |      | (358)        | (564)        |
| Purchase of non-controlling interests                                 |      | -            | (170)        |
| <b>Net cash used in financing activities</b>                          |      | <b>(596)</b> | <b>(810)</b> |
| <b>Net increase in cash and cash equivalents</b>                      |      | <b>35</b>    | <b>775</b>   |
| <b>Cash and cash equivalents at the beginning of the year</b>         |      | <b>2,094</b> | <b>1,319</b> |
| <b>Cash and cash equivalents at the end of the year</b>               |      | <b>2,129</b> | <b>2,094</b> |

The accompanying notes are an integral part of this Cash Flow Statement.

Unless otherwise stated, all cash flows relate to continuing operations.

## Statement of changes in equity

For the year ended 30 June 2017

|  | Share<br>capital<br>£m | Share<br>premium<br>£m | Hedging<br>reserve<br>£m | Available-<br>for-sale<br>reserve<br>£m | Retained<br>earnings<br>£m | Total<br>shareholder's<br>equity<br>£m |
|--|------------------------|------------------------|--------------------------|---|----------------------------|--|
| <b>At 1 July 2015</b>                          | <b>10</b>              | <b>-</b>               | <b>-</b>                 | <b>(2)</b>                              | <b>2,114</b>               | <b>2,122</b>                           |
| Profit for the year                            | -                      | -                      | -                        | -                                       | 149                        | 149                                    |
| Revaluation of available-for-sale investments  | -                      | -                      | -                        | 1                                       | -                          | 1                                      |
| Recognition and transfer of cash flow hedges   | -                      | -                      | 175                      | -                                       | -                          | 175                                    |
| Tax on items taken directly to equity          | -                      | -                      | (34)                     | -                                       | -                          | (34)                                   |
| <b>Total comprehensive income for the year</b> | <b>-</b>               | <b>-</b>               | <b>141</b>               | <b>1</b>                                | <b>149</b>                 | <b>291</b>                             |
| Tax on items taken directly to equity          | -                      | -                      | -                        | -                                       | (1)                        | (1)                                    |
| Distribution to parent company                 | -                      | -                      | -                        | -                                       | (671)                      | (671)                                  |
| <b>At 30 June 2016</b>                         | <b>10</b>              | <b>-</b>               | <b>141</b>               | <b>(1)</b>                              | <b>1,591</b>               | <b>1,741</b>                           |
| Profit for the year                            | -                      | -                      | -                        | -                                       | 63                         | 63                                     |
| Revaluation of available-for-sale investments  | -                      | -                      | -                        | 1                                       | -                          | 1                                      |
| Recognition and transfer of cash flow hedges   | -                      | -                      | (61)                     | -                                       | -                          | (61)                                   |
| Tax on items taken directly to equity          | -                      | -                      | 16                       | -                                       | -                          | 16                                     |
| <b>Total comprehensive income for the year</b> | <b>-</b>               | <b>-</b>               | <b>(45)</b>              | <b>1</b>                                | <b>63</b>                  | <b>19</b>                              |
| Tax on items taken directly to equity          | -                      | -                      | -                        | -                                       | 4                          | 4                                      |
| Distribution to parent company                 | -                      | -                      | -                        | -                                       | (267)                      | (267)                                  |
| <b>At 30 June 2017</b>                         | <b>10</b>              | <b>-</b>               | <b>96</b>                | <b>-</b>                                | <b>1,391</b>               | <b>1,497</b>                           |

For a description of the nature and purpose of the hedging reserve, see note 23.

## Notes to the financial statements

### 1. Accounting policies

Sky UK Limited (the "Company") is a limited liability company incorporated in the United Kingdom and registered in England and Wales.

#### 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 and 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, none of which had any significant impact on the Company's results or financial position.

The Company maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal year 2017, this date was 2 July 2017, this being a 52 week year (fiscal year 2016: 3 July 2016, 53 week year). For convenience purposes, the Company continues to date its financial statements as at 30 June. 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 accounts afforded by section 400 of the Companies Act 2006, because it is a wholly-owned subsidiary of Sky plc ("Sky") which prepares consolidated accounts which are publicly available (see note 28).

#### c) Intangible assets and property, plant and equipment

##### 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. 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.

Amortisation of an intangible asset begins when the asset is available for use, and is charged to the income statement through operating expense over the asset's useful economic life in order to match the expected pattern of consumption of future economic benefits embodied in the asset. Principal useful economic lives used for this purpose are:

|   |                            |
|---|----------------------------|
| Internally generated intangible assets                | 3 to 5 years straight-line |
| Software development (external) and software licences | 3 to 7 years straight-line |
| Other intangible assets                               | 1 to 5 years straight-line |

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.

## Notes to the financial statements

### 1. Accounting policies (continued)

#### c) Intangible assets and property, plant and equipment (continued)

##### ii. Property, plant and equipment

Owned PPE is stated at cost, net of accumulated depreciation and any impairment losses, (see accounting policy g). When an item of PPE comprises major components having different useful economic lives, the components are accounted for as separate items of PPE.

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are treated as 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:

|  |  |
|--|--|
| Freehold buildings                                     | 25 to 40 years   |
| Equipment, furniture and fixtures                      | 3 to 20 years  |
| Assets under finance leases and leasehold improvements | Lesser of lease term and the useful economic life of the asset |

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 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 uses derivative financial instruments to hedge its exposure to fluctuations in interest and 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.

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 or fair value hedges. Certain other derivatives held by the Company do not meet

## Notes to the financial statements

### 1. Accounting policies (continued)

#### d) Derivative financial instruments and hedging activities (continued)

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 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. Derivatives that qualify for fair value hedge accounting

The Company has designated certain derivatives as fair value hedges as defined under IAS 39. Any changes in the fair value of the derivatives are recognised immediately in the income statement. The carrying values of the underlying hedged items are adjusted for the change in the fair value of the hedged risks, with the gains or losses recognised immediately in the the income statement, offsetting the fair value movement on the derivative.

Prospective effectiveness is assessed quarterly, through a comparison of the principal terms of the hedging instrument and the underlying hedged item, including the likelihood of default by the derivative counterparty. The retrospective effectiveness of the Company's fair value hedges is calculated quarterly using the cumulative dollar-offset approach, with movements in the fair value of the hedged item being compared to movements in the fair value of the hedging instrument.

## Notes to the financial statements

### 1. Accounting policies (continued)

#### d) Derivative financial instruments and hedging activities (continued)

##### ii. Derivatives that qualify for fair value hedge accounting (continued)

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

##### iii. 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.

#### e) Inventories

##### i. Acquired and commissioned television programme inventories for broadcast

Programme inventories for broadcast are stated at the lower of cost and net realisable value ("NRV"), including, where applicable, estimated subscriber escalation payments, and net of the accumulated expense charged to the income statement to date.

Programming rights are included as inventories when the legally enforceable licence period commences and all of the following conditions have been met: (a) the cost of each programme is known or reasonably determinable; (b) the programme material has been accepted by the Company in accordance with the conditions of the rights, and (c) the programme is available for its first showing.

Prior to being included in inventories, the programming rights are classified as television programme rights not yet available for transmission and not recorded as inventories on the Company's balance sheet and are instead disclosed as contractual commitments (see note 26). Payments made in advance of the legal right to broadcast the programmes are treated as prepayments in trade and other receivables.

The cost of television programme inventories is recognised in the operating expense line of the income statement, over the period the Company utilises and consumes the programming rights, applying linear-broadcast and time-based methods of amortisation depending on the type of programme right, taking into account the circumstances primarily as described below. These circumstances may change or evolve over time and as such, the Group regularly reviews and updates the method used to recognise programming expense.

**Sports** – the majority or all of the cost is recognised in the income statement on the first broadcast or, where the rights are for multiple seasons or competitions, such rights are principally recognised on a straight-line basis across the seasons or competitions. Where the rights are packaged, sold and/or significantly consumed over the off-season, the Company allocates an appropriate portion of the total rights value to the off-season period, and that cost is recognised on a straight-line basis over the off-season period.

**News** – the cost is recognised in the income statement as incurred.

**Movies** – The cost is recognised in the income statement on a straight-line basis over the period for which the broadcast rights are licensed.

**General entertainment** – the cost relating to acquired, commissioned and produced rights are recognised in the income statement, principally based on the expected value of each planned broadcast on the Company's linear channels and the time period over which non-linear programme rights are utilised. Relicensed content is amortised on a straight-line basis over the time period the rights are expected to be utilised. The cost attributable or apportioned to non-linear (on demand) rights are amortised on a straight-line basis over the period of broadcast rights.

## Notes to the financial statements

### 1. Accounting policies (continued)

#### e) Inventories (continued)

##### i. Acquired and commissioned television programme inventories for broadcast (continued)

The Group regularly reviews its programming rights for impairment. Where programme rights are surplus to the Company's requirements, and no gain is anticipated through a disposal of the rights, or where the programming will not be broadcast for any other reason, a write-down to the income statement is made. Any reversals of inventory write-downs are recognised as reductions in operating expense.

##### ii. Set-top boxes, routers and related equipment

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 "Inventories".

##### iii. Raw materials, consumables and goods held for resale

Raw materials, consumables and goods held for resale are valued at the lower of cost and NRV. The cost of raw materials, consumables and goods held for resale is recognised through the operating expense line of the income statement on a first-in-first out basis.

#### f) Financial assets and liabilities

Directly attributable transaction costs are included in the initial measurement of financial assets and liabilities only with respect to those assets and liabilities that are not subsequently measured at fair value through profit and loss. 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. Available-for-sale investments

Equity investments intended to be held for an indefinite period of time are classified as available-for-sale investments. They are carried at fair value, where this can be reliably measured, with movements in fair value recognised directly in the available-for-sale reserve. Where the fair value cannot be reliably measured, the investment is carried at cost.

Any impairment losses in equity investments classified as available-for-sale investments are recognised in the income statement and are not reversible through the income statement unless or until the investment is disposed of and are determined with reference to the closing market share price at the date the impairment is observed.

Any subsequent increase in the fair value of the available-for-sale investment above the impaired value will be recognised within the available-for-sale reserve.

Available-for-sale investments are included within non-current assets unless the carrying value is expected to be recovered principally through sale within the next 12 months, in which case they are included within current assets.

## Notes to the financial statements

### **1. Accounting policies (continued)**

#### **f) Financial assets and liabilities (continued)**

##### **i. Available-for-sale investments (continued)**

On disposal, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had previously been recognised directly in reserves is recognised in the income statement.

##### **ii. 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 identified from objective evidence, with movements in the allowance account, either from increased impairment losses or reversals of impairment losses, being recognised in the income statement.

##### **iii. 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.

##### **iv. Short-term deposits**

This includes short-term deposits and commercial paper which have maturity dates of more than three months from inception. These deposits are initially recognised at fair value, and then carried at amortised cost through the income statement less any allowance for impairment losses.

##### **v. 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.

##### **vi. Borrowings**

Borrowings are recorded as the proceeds received, net of direct issue costs. Finance charges, including any premium payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying amount of the underlying instrument to which they relate, to the extent that they are not settled in the period in which they arise.

##### **vii. Investment 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 afforded 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.

## Notes to the financial statements

### 1. Accounting policies (continued)

#### 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 e), non-current assets classified as held for sale, financial assets (see accounting policy f) and deferred tax (see accounting policy l) 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 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 or cash generating unit 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. Impairment of goodwill is not reversed.

#### h) 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 of 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.

#### i) 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 sources of revenue are recognised as follows:

- Subscription revenue includes revenue from residential and commercial subscribers to TV, mobile and home communication products, including over-the-top ("OTT") subscriptions, and income from set-top box and mobile handset sales, installation, service calls and warranties. Revenue is recognised, net of any discount given, as the goods or services are provided.
- Transactional revenue includes the purchase of physical content, OTT passes, pay per view and buy to keep content by residential and commercial customers. Transactional revenue is recognised, net of any discount given, when the relevant goods or service are provided.

## Notes to the financial statements

### 1. Accounting policies (continued)

#### i) Revenue recognition (continued)

- Programme and channel sales revenue includes revenue from the sale of channels and programmes across other platforms and internationally. Channel sales revenue is recognised as the services are provided to cable and other retailers and is based on the number of subscribers taking the Sky channels, as reported to the Company by the cable and other retailers, and the applicable rate card or contract. Programming sales revenue is earned from the production of programming and the distribution of programming rights. Production revenue is recognised on a stage of completion basis, where the stage of completion is determined by comparing the proportion of costs incurred to date to the total estimated cost of the transaction. Distribution revenue is recognised when the contract is signed and the final content has been delivered for customer exploitation.
- Advertising sales revenue is recognised when the advertising is broadcast. Revenue generated from airtime sales, where Sky acts as an agent on behalf of third parties, is recognised on a net commission basis.
- Other revenue principally includes income from technical platform services, and the provision of network services. Other revenue is recognised, net of any discount given, when the relevant goods or service are provided.

A bundle exists where a customer enters into contracts for goods and services at or around the same time, where the transaction can only be understood commercially with reference to the bundle of goods and services as a whole, and where there is price inter-dependency between the products in a bundle. Where a customer purchases further products or services subsequent to the original sale, these are judged to represent contract modifications and are accounted for separately to the original bundle, with any associated discounts recognised against the additional products and services being added.

When the Company sells a set-top box, installation or service and a subscription in one bundled transaction, the total consideration from the arrangement is allocated to each element based on their relative fair values. The fair value of each individual element is determined using vendor specific or third party evidence. The amount of revenue the Company recognises for a delivered element is limited to (cannot exceed) the cash received or consideration receivable. Discounts are allocated to products on a pro-rata basis according to relative fair values, except where there is observable evidence that the discount relates to one or more, but not all, products within the bundle.

#### j) Employee benefits

##### 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.

##### Pension obligations

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

## Notes to the financial statements

### 1. Accounting policies (continued)

#### j) Employee benefits (continued)

##### 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.

##### Equity compensation benefits

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 in the case of equity-settled payments, and liabilities in the case of cash-settled awards.

The fair values of equity-settled 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.

#### k) 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.

When the Company is lessor, sublease income from operating leases is recognised on a straight-line basis over the term of the lease. 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.

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.

#### l) Tax, including deferred tax

The Company's liability for current tax is based on taxable profits 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 profits.

## Notes to the financial statements

### **1. Accounting policies (continued)**

#### **l) Tax, including deferred tax (continued)**

Taxable 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. 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 tax authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### **m) Distributions to equity shareholders**

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

#### **n) 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 year, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

The assets and liabilities of the Company's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the applicable monthly average exchange rates. Any exchange differences arising are classified as equity within the foreign currency translation reserve.

#### **o) 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 July 2017. 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.

## Notes to the financial statements

### 1. Accounting policies (continued)

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

- Amendments to IAS 7 '*Disclosure Initiative*' (effective 1 January 2017)\*
- Amendments to IAS 12 '*Recognition of Deferred Tax Assets for Unrealised Losses*' (effective 1 January 2017)\*
- Amendments to IFRS 2 '*Share-based Payments*' (effective 1 January 2018)\*
- IFRIC 22 '*Foreign Currency Transactions and Advanced Consideration*' (effective 1 January 2018)\*
- Amendments to IFRS 4 '*Insurance contracts*' (effective 1 January 2018)\*
- Amendments to IAS 40 '*Investment Properties*' (effective 1 January 2018)\*
- IFRS 15 '*Revenue from Contracts with Customers*' (effective 1 January 2018) and is effective on the Company from 1 July 18 onwards

When IFRS 15 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 impact of IFRS 15 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 15 on each line item in the financial statements in the reporting period. The Company has not yet determined which method will be adopted.

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers:

- Identify the contract with the customer
- Identify the performance obligations in the contract, introducing the new concept of 'distinct'
- Determining the transaction price
- Allocating the transaction price to the performance obligations in the contracts, on a relative stand-alone selling price basis
- Recognise revenue when (or as) the entity satisfies its performance obligation

IFRS 15 also introduces new guidance on, amongst other areas, combining contracts, discounts, variable consideration, contract modifications and requires that certain costs incurred in obtaining and fulfilling customer contracts be deferred on the balance sheet and amortised over the period an entity expects to benefit from the customer relationship.

In the current year, management has conducted a detailed accounting scoping analysis across each of the Company's operating segments and across the products and services within the Company's revenue streams. Management has also assessed accounting implementation approaches for each revenue stream in each segment based on the potential materiality, complexity and volatility of impacts.

Qualitatively, management currently expects the following impacts:

- The Company's revenue recognition for bundled subscription products will no longer be limited to cash received or consideration receivable for a delivered element. As a result, the Company will bring forward revenue for distinct products and services delivered at the start of a subscription contract, where the price charged for those performance obligations is lower than the standalone selling price. This will correspondingly reduce subsequent subscription revenue across the remainder of the customer contract, but will not change revenue recognised in total or the amount or timing of associated cash flows

## Notes to the financial statements

### 1. Accounting policies (continued)

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

- Where product or service discounts reduce the total consideration for a customer's bundle, the revenue which will be brought forward for upfront deliverables will be reduced. The impact of discounts will be spread over the minimum contract period. There is also new guidance regarding how and to which products discounts should be allocated, which may result in differences to current treatments
- Under the guidance as to what constitutes distinct performance obligations, there may be differences compared to what the Company currently considers to be separately identifiable deliverables. Management will also need to consider any associated cost implications of any differences
- Under the guidance regarding contract modifications, the accounting for contract modifications not made at standalone sales price, is expected to differ compared to current accounting treatments
- There may be certain costs to obtain customer contracts that will require capitalisation and amortisation over the period the Company expects to benefit from the customer relationship, compared to being expensed as incurred, as currently
- Existing principal versus agent judgements require evaluation against new guidance. Should current judgements change, this could significantly change gross revenue and cost, but with no expected impact on operating profit
- The phasing of revenue for long-term contracts may vary compared to current treatments
- IFRS 9 'Financial Instruments' (effective 1 January 2018) and is effective on the Company from 1 July 2018 onwards.

The standard is expected to impact the classification and measurement of financial instruments and is expected to require certain additional disclosures.

It introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for the credit event to have occurred before a credit loss is recognised.

It also introduces a new hedge accounting model that is designed to more closely align with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

The Company is currently assessing the impact of the accounting changes that will arise under IFRS 9.

- IFRS 16 'Leases' (effective 1 January 2019)\* and is effective on the Company from 1 July 2019 onwards.

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

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.

## Notes to the financial statements

### 1. Accounting policies (continued)

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

Where a contract meets IFRS 16's definition of a lease and new associated guidance, where the Company acts as a lessee, 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 on the Company's balance sheet.

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 Company is currently assessing the impact of the accounting changes that will arise under IFRS 16. 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.

- IFRS 17 '*Insurance Contracts*' (effective 1 January 2021)\*

\* not yet endorsed for use in the EU

#### **p) Critical accounting policies and the use of judgement and estimates**

Certain accounting policies are considered to be critical to the Company. An accounting policy is considered to be critical if its selection or application materially affects the Company's financial position or results. The Directors are required to use their judgement in order to select and apply the Company's critical accounting policies. 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.

#### **Critical accounting policies and judgements**

##### **i Revenue (see note 2)**

- Selecting the appropriate timing for, and amount of, revenue to be recognised requires judgement. This may involve estimating the fair value of consideration before it is received.
- Judgement is required in determining which products constitute a bundle, and how revenue is allocated to products within the bundle. When the Company sells a set-top box, installation or service and a subscription in one bundled transaction, the total consideration from the arrangement is allocated to each element based on its relative fair value. The fair value of each individual element is determined using vendor specific or third party evidence.
- The amount of revenue the Company recognises for delivered elements is limited to the cash received or consideration receivable. Discounts are allocated to products on a pro-rata basis according to relative fair values, except where there is observable evidence that the discount relates to one or more, but not all, products within the bundle, so as to faithfully represent the commercial substance of the transaction.

##### **ii Taxation, including deferred taxation (see note 8)**

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

## Notes to the financial statements

### 1.Accounting policies (continued)

#### p) Critical accounting policies and the use of judgement and estimates (continued)

##### ii Taxation, including deferred taxation (see note 8) (continued)

- 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 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.

##### iii Intangible assets and property, plant and equipment (see notes 9 and 11)

- 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 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.
- 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.

##### iv Programming inventory for broadcast (see note 14)

- The key area of accounting for programming inventory for broadcast that requires judgement is the assessment of the appropriate profile over which to amortise general entertainment programming. This assessment requires the Company to form an expectation of:
  - the number of times a programme will be broadcast on the Company's linear channels, and the time period over which the programme is expected to be utilised;
  - the relative value associated with each broadcast; and

## Notes to the financial statements

### 1.Accounting policies (continued)

#### p) Critical accounting policies and the use of judgement and estimates (continued)

##### iv Programming inventory for broadcast (see note 14) (continued)

- the relative value associated with linear channel and non-linear programme rights. Linear channel rights refer to the rights to broadcast a programme on the Company's linear broadcast channels and non-linear rights reflect the rights to make a programme available on the Company's on demand service.
- In order to perform this assessment, the Company considers the following factors:
  - The frequency with which, and the time period over which, the programme is expected to be utilised on the Company's linear channels and non-linear services. This is usually based on a combination of the actual period specified in the contract for the programme rights, the initial expectation of when airings will be scheduled and the alternative programming available to the Company within this period. Linear rights are consumed when the programmes are broadcast, non-linear rights are consumed over the period the programme is made available.

Expectations as to the number of viewers a programme is likely to achieve for each individual broadcast on the Company's linear channels over the contractual broadcast period. The number of viewers per broadcast directly influences advertising revenue for channels, although this consideration is partly influenced by the Company's assessment of the potential impact of the publicly available information on its competitors' scheduling intentions against planned broadcasts.

The potential benefits associated with utilising programming. Certain high-profile or high-quality programming titles have additional value to the Company, as they attract new TV customers and encourage retention of existing TV customers. As such, these programmes are able to retain more value throughout their licence period than would be indicated when considering the expected customer viewing and consumption numbers alone.

The relative value associated with linear channel and non-linear rights are assessed based on the manner in which the Company expects to utilise the programming rights and the relative value perceived by customers for the Company's channels and services. Those relative values may also differ based on the type and genre of programme. Such values are reviewed by the Company against current and expected future trends in customer viewing behaviour for the Company's programming and channels. The value apportioned to non-linear rights (in addition to any separately acquired non-linear rights) is amortised on a straight-line basis over the period of the broadcast rights, as the Company considers this to be the profile most closely aligned to its consumption of those rights. A broadcast-based amortisation model is not relevant or appropriate for this type of right as the Company makes the programmes available for a period of time rather than for a specified number of broadcasts.

## Notes to the financial statements

### 1. Accounting policies (continued)

#### p) Critical accounting policies and the use of judgement and estimates (continued)

##### Key sources of estimation and uncertainty

##### v Investment and goodwill impairment assessments

Investment and goodwill impairment assessments require the calculation of the recoverable amount of cash generating units to which the goodwill is associated. Such calculation involves estimates of the net present value of future forecast cash flows and selecting an appropriate discount rate. Alternatively, it may involve a calculation of the estimated fair value less costs to sell of the applicable cash generating unit.

As such, the carrying value of investments and goodwill is sensitive to the method, assumptions and estimates underlying the calculations. We consider the sensitivity of the outcome to plausible changes in key inputs, as part of our assessments. Uncertainty around key sources of estimation will be resolved over the passage of time, as future performance materialises and latest forecasts are considered.

## Notes to the financial statements

### 2. Revenue

|                             | 2017         | 2016         |
|-----------------------------|--------------|--------------|
|                             | £m           | £m           |
| Subscription                | 6,663        | 6,575        |
| Transactional               | 162          | 142          |
| Programme and Channel Sales | 566          | 530          |
| Advertising                 | 463          | 477          |
| Other                       | 71           | 68           |
|                             | <b>7,925</b> | <b>7,792</b> |

Revenue arises from goods and services provided to the United Kingdom, with the exception of £399 million (2016: £428 million) which arises from services provided to the Republic of Ireland.

### 3. Operating expense

|                                   | 2017         | 2016         |
|-----------------------------------|--------------|--------------|
|                                   | £m           | £m           |
| Programming                       | 3,381        | 2,851        |
| Direct network costs              | 25           | 1            |
| Sales, general and administration | 4,410        | 4,673        |
|                                   | <b>7,816</b> | <b>7,525</b> |

### 4. Impairment of Investments

In the current year the Company wrote down an investment in a subsidiary (charge of £4 million). This Company ceased trading on 7 February 2017 and therefore has no future value.

In the current year, the Company reduced its investment in Ciel Bleu 6 Limited (charge of £3 million) (2016: charge of £1 million).

During the prior year, the Company also wrote down its investment in an available for sale investment (charge of £4 million).

### 5. Investment income and finance costs

|   | 2017       | 2016       |
|---|------------|------------|
|   | £m         | £m         |
| <b>Investment income</b>  |            |            |
| Interest on cash, cash equivalents and short-term deposits                                    | 6          | 9          |
| External interest receivable  | 6          | 7          |
| Intercompany interest receivable <sup>(1)</sup>   | 97         | 95         |
| Other interest receivable   | 4          | 8          |
| Remeasurement of other derivative financial instruments (not qualifying for hedge accounting) | 23         | 15         |
| Realised foreign exchange gain on loan  | 4          | -          |
|   | <b>140</b> | <b>134</b> |

## Notes to the financial statements

|   | 2017         | 2016  |
|---|--------------|-------|
|   | £m           | £m    |
| <b>Finance costs</b>  |              |       |
| Intercompany interest payable <sup>(ii)</sup>   | <b>(189)</b> | (193) |
| Remeasurement of other derivative financial instruments (not qualifying for hedge accounting) | -            | (21)  |
| Finance lease interest  | <b>(1)</b>   | (2)   |
| Realised foreign exchange loss on loan  | -            | (8)   |
|   | <b>(190)</b> | (224) |

(i) Intercompany interest is receivable on certain loans to Sky Operational Finance Limited (see note 15).

(ii) Intercompany interest payable includes interest on US\$750 million Guaranteed Notes at 6.100%, repayable in February 2018, US\$582.8 million Guaranteed Notes at 9.500%, repayable in November 2018, £300 million Guaranteed Notes at 6.000%, repayable in May 2027, US\$800 million Guaranteed Notes at 3.125%, repayable in November 2022 and £503 million RCF agreement at 3.226%.

In October 2005, Sky Group Finance plc issued Guaranteed Notes. Intercompany interest is payable to Sky Group Finance plc on these Guaranteed Notes, consisting of £400 million aggregate principal amount of notes paying 5.750% interest and maturing on 20 October 2017 and US \$350 million aggregate principal amount of notes paying 6.500% interest and maturing on 15 October 2035.

In September 2014, as part of the acquisition of Sky Deutschland and Sky Italia, the Company entered into various intercompany loan agreements with Sky Operational Finance Limited. Intercompany interest is payable to Sky Operational Finance Limited on these loans consisting of a €581 million loan at EURIBOR +0.656%, €1,500 million of 1.5% Guaranteed, a loan of €969 million at 2.19%, €1,000 million of 2.5% Guaranteed and €400 million of 2.75% Guaranteed Notes repayable in November 2029. These loans are all repayable on demand.

In addition in November 2014, the Company entered into further intercompany loan arrangements with Sky Operational Finance Limited. Intercompany interest is payable to Sky Operational Finance Limited on these loans consisting of €850 million of 1.875% Guaranteed Notes repayable in November 2023 and a €126 million loan at 2.94% repayable in November 2029.

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 2.7% (2016: 2.8%) to expenditure on such assets. The amount capitalised in the current year amounted to £10 million (2016: £14 million).

## Notes to the financial statements

### 6. Profit before tax

Profit before tax is stated after charging:

|  | 2017  | 2016  |
|--|-------|-------|
|  | £m    | £m    |
| Cost of inventories recognised as an expense                 | 2,673 | 2,056 |
| Depreciation and impairment of property, plant and equipment | 82    | 81    |
| Impairment of investment in subsidiaries                     | 7     | 1     |
| Amortisation and impairment of intangible assets             | 66    | 51    |
| Rentals on operating leases and similar arrangements         | 30    | 36    |

### Foreign exchange

Foreign exchange differences recognised in the income statement during the year amounted to £14m gain. (2016: nil).

### Audit fees

An analysis of auditor's remuneration is as follows:

|                             | 2017     | 2016     |
|-----------------------------|----------|----------|
|                             | £m       | £m       |
| <b>Total audit fees</b>     | <b>1</b> | <b>1</b> |
| Other services              | 1        | 1        |
| <b>Total non-audit fees</b> | <b>1</b> | <b>1</b> |
|                             | <b>2</b> | <b>2</b> |

Fees payable to the Company's auditor for the audit of the annual accounts were £0.6 million (2016: £0.4 million) and fees payable to the Company's auditor for settlement of audit fees on behalf of other group companies were £0.3 million (2016: £0.3 million).

Amounts paid to the auditor for non-audit related fees include audit related services of £0.6 million (2016: £0.2 million), taxation services of £0.1 million (2016: £0.3 million), other assurance services of £0.5 million (2016: £0.1 million), other advisory services of nil (2016: nil) and transaction services of nil (2016: nil).

## Notes to the financial statements

### 7. Employee benefits and key management compensation

#### a) Company employee benefits

|  | 2017<br>£m | 2016<br>£m |
|--|------------|------------|
| Wages and salaries   | 447        | 443        |
| Social security costs  | 70         | 68         |
| Costs of employee share option schemes <sup>(i)</sup>                      | 121        | 86         |
| Contributions to the Sky Pension Plan ("the Pension Plan") <sup>(ii)</sup> | 23         | 20         |
|  | <b>661</b> | <b>617</b> |

(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 through the Pension Plan. The pension charge for the year represents the cost of contributions payable by the Company to the scheme during the year. The Company's amount payable to the scheme at 30 June 2017 was £5 million (2016: £4 million).

The average monthly number of full-time equivalent persons (including temporary employees) employed by the Company during the year was 6,721 (2016: 6,732).

|  | 2017<br>Number | 2016<br>Number |
|--|----------------|----------------|
| Channels and services                  | 3,066          | 3,368          |
| Transmission and technology            | 1,565          | 1,202          |
| Customer services, sales and marketing | 1,102          | 1,208          |
| Management and administration          | 988            | 954            |
|  | <b>6,721</b>   | <b>6,732</b>   |

#### b) Key management compensation

|                              | 2017<br>£m | 2016<br>£m |
|------------------------------|------------|------------|
| Short-term employee benefits | 2          | 2          |
| Share-based payment expense  | 4          | 4          |
|                              | <b>6</b>   | <b>6</b>   |

Key management are defined as the Directors of the Company.

During the year the highest paid director was paid compensation of £1,592,488. The highest paid director exercised 74,249 share options under share option schemes. Please refer to Note 22 for further information on Share option and contingent share award schemes.

## Notes to the financial statements

### 8. Tax

#### a) Tax recognised in the income statement

|   | 2017<br>£m  | 2016<br>£m |
|---|-------------|------------|
| <b>Current tax expense</b>                        |             |            |
| Current year                                      | 6           | 39         |
| Adjustment in respect of prior years              | (8)         | (28)       |
| Total current tax (credit)/charge                 | (2)         | 11         |
| <b>Deferred tax expense</b>                       |             |            |
| Origination and reversal of temporary differences | (14)        | 6          |
| Adjustment in respect of prior years              | 5           | 6          |
| Total deferred tax (credit)/charge                | (9)         | 12         |
| <b>Tax</b>  | <b>(11)</b> | <b>23</b>  |

#### b) Tax recognised directly in equity

|   | 2017<br>£m | 2016<br>£m  |
|---|------------|-------------|
| Current tax credit relating to share-based payments           | 1          | 21          |
| Deferred tax credit/(charge) relating to share-based payments | 5          | (22)        |
| Deferred tax credit/(charge) relating to cash flow hedges     | 14         | (34)        |
|   | <b>20</b>  | <b>(35)</b> |

#### c) Reconciliation of total tax charge

The tax expense for the year is lower (2016: lower) than the standard blended rate of corporation tax in the UK (19.75%) (2016: 20%) applied to profit before tax. The differences are explained below:

|  | 2017<br>£m  | 2016<br>£m |
|--|-------------|------------|
| Profit before tax  | 52          | 172        |
| Profit before tax multiplied by blended rate of corporation tax in the UK of 19.75%<br>(2016: 20%) | 10          | 34         |
| Effects of:  |             |            |
| Group relief   | (23)        | -          |
| Other permanent differences  | 5           | 10         |
| Adjustments in respect of prior years  | (3)         | (21)       |
| <b>Tax</b>   | <b>(11)</b> | <b>23</b>  |

All tax relates to UK corporation tax.

## Notes to the financial statements

### 9. Intangible assets

|                         | Internally<br>generated<br>intangible<br>assets | Software<br>development<br>(external) and<br>software<br>licenses | Other<br>intangible<br>assets | Internally<br>generated<br>intangible<br>assets not<br>yet<br>available<br>for use | Acquired<br>intangible<br>assets not<br>yet<br>available<br>for use | Total      |
|-------------------------|---|---|-------------------------------|--|---|------------|
|                         | £m  | £m  | £m                            | £m   | £m  | £m         |
| <b>Cost</b>             |   |   |                               |  |   |            |
| At 1 July 2015          | 225   | 107   | 88                            | 17   | -   | 437        |
| Additions               | 14  | 30  | 1                             | 19   | 5   | 69         |
| Disposals               | (1)   | -   | -                             | -  | -   | (1)        |
| Transfers               | (2)   | 1   | -                             | 2  | (1)   | -          |
| <b>At 30 June 2016</b>  | <b>236</b>                                      | <b>138</b>  | <b>89</b>                     | <b>38</b>  | <b>4</b>  | <b>505</b> |
| Additions               | 49  | 13  | 1                             | -  | 15  | 78         |
| Disposals               | (23)  | (9)   | -                             | (10)   | -   | (42)       |
| Transfers               | 26  | 3   | -                             | (17)   | (12)  | -          |
| <b>At 30 June 2017</b>  | <b>288</b>                                      | <b>145</b>  | <b>90</b>                     | <b>11</b>  | <b>7</b>  | <b>541</b> |
| <b>Amortisation</b>     |   |   |                               |  |   |            |
| At 1 July 2015          | 126   | 72  | 13                            | -  | -   | 211        |
| Amortisation            | 34  | 13  | 4                             | -  | -   | 51         |
| Impairments             | -   | -   | -                             | -  | -   | -          |
| Disposals               | (1)   | -   | -                             | -  | -   | (1)        |
| <b>At 30 June 2016</b>  | <b>159</b>                                      | <b>85</b>   | <b>17</b>                     | <b>-</b>   | <b>-</b>  | <b>261</b> |
| Amortisation            | 36  | 17  | 3                             | -  | -   | 56         |
| Impairment              | 1   | 1   | -                             | 8  | -   | 10         |
| Disposals               | (23)  | (9)   | -                             | (8)  | -   | (40)       |
| <b>At 30 June 2017</b>  | <b>173</b>                                      | <b>94</b>   | <b>20</b>                     | <b>-</b>   | <b>-</b>  | <b>287</b> |
| <b>Carrying amounts</b> |   |   |                               |  |   |            |
| At 1 July 2015          | 99  | 35  | 75                            | 17   | -   | 226        |
| At 30 June 2016         | 77  | 53  | 72                            | 38   | 4   | 244        |
| <b>At 30 June 2017</b>  | <b>115</b>                                      | <b>51</b>   | <b>70</b>                     | <b>11</b>  | <b>7</b>  | <b>254</b> |

## Notes to the financial statements

### 9. Intangible assets (continued)

The Company's internally generated intangible assets relate to software development associated with the Company's customer management systems. The Company's other intangible assets include certain assets with indefinite useful lives. The carrying value of these assets is £25 million (2016: £25 million).

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

|                               | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------------|------|------|------|------|------|
| Estimated amortisation charge | 58   | 47   | 31   | 17   | 6    |

### 10. Goodwill

On the 29 April 2012, the assets of Living TV Group Holdings Ltd, which was put into liquidation as part of a Group restructuring programme, were transferred to the Company in a common control transaction for consideration of £144 million. The net assets acquired were transferred at book value of £144 million. On transfer the carrying value of the goodwill was £18 million, and the carrying value of the intangible asset relating to the customer contract between Living TV Group Holdings and the Company was £70 million. This resulted in the recognition of £88 million of goodwill by the Company.

## Notes to the financial statements

### 11. Property, plant and equipment

|                         | Freehold<br>land<br>and<br>buildings <sup>(i)</sup> | Leasehold<br>improvements | Equipment,<br>furniture<br>and<br>fixtures <sup>(ii)</sup> | Assets not<br>yet<br>available<br>for use | Total        |
|-------------------------|---|---------------------------|--|---|--------------|
|                         | £m  | £m                        | £m   | £m  | £m           |
| <b>Cost</b>             |   |                           |  |   |              |
| At 1 July 2015          | 378   | 40                        | 644  | 118                                       | 1,180        |
| Additions               | 7   | -                         | 47   | 152                                       | 206          |
| Disposals               | -   | (2)                       | (20)   | -   | (22)         |
| Transfers               | 19  | -                         | 11   | (30)                                      | -            |
| <b>At 30 June 2016</b>  | <b>404</b>  | <b>38</b>                 | <b>682</b>   | <b>240</b>                                | <b>1,364</b> |
| Additions               | 32  | -                         | 43   | 54  | 129          |
| Disposals               | (4)   | (24)                      | (42)   | -   | (70)         |
| Transfers               | 177   | -                         | 93   | (270)                                     | -            |
| <b>At 30 June 2017</b>  | <b>609</b>  | <b>14</b>                 | <b>776</b>   | <b>24</b>                                 | <b>1,423</b> |
| <b>Depreciation</b>     |   |                           |  |   |              |
| At 1 July 2015          | 42  | 35                        | 372  | -   | 449          |
| Depreciation            | 11  | 3                         | 64   | -   | 78           |
| Impairment              | -   | 1                         | 2  | -   | 3            |
| Disposals               | -   | (2)                       | (20)   | -   | (22)         |
| <b>At 30 June 2016</b>  | <b>53</b>   | <b>37</b>                 | <b>418</b>   | <b>-</b>                                  | <b>508</b>   |
| Depreciation            | 10  | 1                         | 66   | -   | 77           |
| Impairment              | 3   | -                         | 2  | -   | 5            |
| Disposals               | (4)   | (24)                      | (42)   | -   | (70)         |
| <b>At 30 June 2017</b>  | <b>62</b>   | <b>14</b>                 | <b>444</b>   | <b>-</b>                                  | <b>520</b>   |
| <b>Carrying amounts</b> |   |                           |  |   |              |
| At 1 July 2015          | 336   | 5                         | 272  | 118                                       | 731          |
| At 30 June 2016         | 351   | 1                         | 264  | 240                                       | 856          |
| <b>At 30 June 2017</b>  | <b>547</b>  | <b>-</b>                  | <b>332</b>   | <b>24</b>                                 | <b>903</b>   |

(i) Depreciation was not charged on £88 million of land (2016: £88 million).

(ii) The amounts shown include assets held under finance leases with a net book value of £1 million (2016: £3 million). The cost of these assets was £9 million (2016: £9 million) and the accumulated depreciation was £8 million (2016: £6 million). Depreciation charged during the year on such assets was £2 million (2016: £2 million)

## Notes to the financial statements

### 12. Investment in subsidiaries, joint ventures and associates

#### (i) Non-current loans and subscription for shares in subsidiaries

The movement in the year was as follows:

|   | Loans<br>£m | Shares<br>£m | 2017<br>£m   | 2016<br>£m |
|---|-------------|--------------|--------------|------------|
| <b>Cost and funding</b>   |             |              |              |            |
| Beginning of year   | 36          | 5,021        | 5,057        | 4,628      |
| Subscription for shares   | -           | 28           | 28           | 263        |
| Impairment of investments   | -           | (7)          | (7)          | (1)        |
| Remeasurement of derivative financial instruments qualifying for hedge accounting | -           | 62           | 62           | 167        |
| <b>End of year</b>  | <b>36</b>   | <b>5,104</b> | <b>5,140</b> | 5,057      |
| <b>Amounts provided</b>   |             |              |              |            |
| Beginning of year   | (5)         | (82)         | (87)         | (87)       |
| <b>End of year</b>  | <b>(5)</b>  | <b>(82)</b>  | <b>(87)</b>  | (87)       |
| <b>Net book value</b>   |             |              |              |            |
| Beginning of year   | 31          | 4,939        | 4,970        | 4,541      |
| <b>End of year</b>  | <b>31</b>   | <b>5,022</b> | <b>5,053</b> | 4,970      |

Investment in subsidiaries shown above represents the cost of the shares of the wholly-owned subsidiary undertakings plus non-current loans advanced, less provisions made for any impairment in value. All non-current loans to subsidiaries are non-interest bearing.

During the year, as part of a Group funding exercise, the company subscribed to £21 million of shares in SIOL.

In addition, in the current year the Company acquired 100% of the issued share capital of Diagonal View Limited for consideration of £7 million.

During the year, the Company impaired an investment in a subsidiary which had ceased trading (charge of £4 million). The Company also reduced its investment in Ciel Bleu 6 Limited (charge of £3 million) (2016: charge of £1 million).

During the prior year, the Company agreed to waive an intercompany loan receivable with SIOL in return for increasing its investment in SIOL by £245 million.

During the prior year, as part of a Group funding exercise, the company subscribed to £12 million of shares in SIOL.

In addition, in the prior year the Company acquired 100% of the issued share capital of Apollo Pass Limited for consideration of £5 million.

## Notes to the financial statements

### 12. Investment in subsidiaries, joint ventures & associates (continued)

#### (i) Non-current loans and subscription for shares in subsidiaries (continued)

Unless otherwise indicated, all shareholdings owned directly or indirectly by the Company represent 100% of the issued share capital of the subsidiary and the share capital is comprised of ordinary shares. All entities operate in their country of incorporation.

Details of the investments of the Company are as follows:

#### Incorporated in England and Wales

**Grant Way, Isleworth, Middlesex TW7 5QD**

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##### Name

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##### Direct holdings

Amstrad Limited  
Apollo Pass Limited  
British Sky Broadcasting Limited  
Ciel Bleu 6 Limited  
Diagonal View Limited  
Dolphin TV Limited  
International Channel Pack Distribution Limited  
MEMSTV Limited  
Multicultural & Ethnic Media Sales Limited  
NOW TV Limited  
Parthenon Media Group Limited  
Rivals Digital Media Limited  
Sky Channel Limited  
Sky CP Limited  
Sky Europe Limited  
Sky Global Media Limited  
Sky Group Limited  
Sky Healthcare Scheme 2 Limited  
Sky Home Communications Limited  
Sky In-Home Service Limited  
Sky International Limited  
Sky International Operations Limited  
Sky LLU Assets Limited  
Sky Mobile Services Limited  
Sky New Media Ventures Limited  
Sky News Limited  
Sky Publications Limited  
Sky Retail Stores Limited  
Sky SNI Limited  
Sky Subscribers Services Limited  
Sky Telecommunications Limited  
Sky Telecommunications Services Limited  
Sky Ventures Limited  
The Cloud Networks Limited

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## Notes to the financial statements

Tour Racing Limited (85 Ordinary A Shares of £1 each (85%))

Virtuous Systems Limited

### Indirect holdings

Blast! Films Limited (11,000 ordinary shares of £0.00001 each (55%))

Cymru International Limited

Kidsprog Limited

Love Productions Limited (7,769 ordinary shares of £1 each (70.4%))

Newserge Limited

Parthenon 1 Limited

Parthenon 2 Limited

Parthenon Entertainment Limited

Sky Comedy Limited

Sky History Limited

Sky IP International Limited

Sky IQ Limited

Sky SNA Limited

Sky SNI Operations Limited

True North Productions Limited (20,082 'A' ordinary shares of £0.01 each (60%))

Una Tickets Limited

### 10<sup>th</sup> Floor, The Met Building, 22 Percy Street, London W1T 2BU

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Name

### Indirect holdings

Znak & Co Limited (subsidiary of Znak & Co LLC)

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### Unit 100 Highgate Studios, 53-79 Highgate Road, London NW5 1TL

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Name

Blast! Films – Hunger Limited

Blast! Films – One Day Limited

### Millbank Tower, 21-24 Millbank, London SW1P 4QP

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Name

### Indirect holdings

Attheraces Holdings Limited (1,649 ordinary shares of £1.00 each (50.413%))

Attheraces Limited (subsidiary of Attheraces Holdings Limited)

Attheraces (UK) Limited (subsidiary of Attheraces Holdings Limited)

Go Racing Limited (subsidiary of Attheraces Holdings Limited)

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### Incorporated in Germany

### Medienallee 26, 85774 Unterföhring, Munich

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Name

### Indirect holdings

Premiere WIN Fernsehen GmbH

SCAS Satellite CA Services GmbH

Sky Deutschland GmbH

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## Notes to the financial statements

Sky Deutschland Fernsehen GmbH & Co.KG

Sky Deutschland Verwaltungs GmbH

Sky German Holdings GmbH

Sky Hotel Entertainment GmbH

Sky Media GmbH

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### **Oderstraße 59, 14513 Teltow, Potsdam**

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Name

#### **Indirect holdings**

Sky Deutschland Customer Center GmbH

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### **Eckdrift 109, 19061 Schwerin-Krebsförden**

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Name

#### **Indirect holdings**

Sky Deutschland Service Center GmbH

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### **Incorporated in Italy**

#### **Via Monte Penice, 7-20138 Milan**

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Name

#### **Indirect holdings**

Sky Italia S.r.l

Nuova Società Televisiva Italiana S.r.l

Sky Italia Network Services S.r.l

Sky Italian Holdings SpA

Telepiù S.r.l

Vision Distribution SpA (8,000,040 ordinary shares of €1.00 each (60%))

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### **Incorporated in the USA**

#### **Corporation Trust Center 1209 Orange Street, Wilmington, New Castle, Delaware, 19801**

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Name

#### **Indirect holdings**

BSkyB US Holdings, Inc.

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### **1675 S. State Street, Suite B, Dover, DE 19901**

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Name

#### **Indirect holdings**

Callisto Media West, LLC (subsidiary of Jupiter Entertainment Holdings LLC)

Jupiter Entertainment, LLC (subsidiary of Jupiter Entertainment Holdings LLC)

Jupiter Entertainment Holdings LLC (Membership interest (60%))

Jupiter Entertainment North, LLC (subsidiary of Jupiter Entertainment Holdings LLC)

Wild West Alaska, LLC (subsidiary of Jupiter Entertainment Holdings LLC)

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### **4800 Old Kingston Pike, Suite 2200, Knoxville, TN 37919**

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Name

## Notes to the financial statements

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### Indirect holdings

PhotoOps, LLC (*subsidiary of Jupiter Entertainment Holdings LLC*)

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### 1925 Century Park East, 22<sup>nd</sup> Floor, Los Angeles CA 90067-90071

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#### Name

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#### Indirect holdings (subsidiaries of Love Productions Limited)

Baking Show, LLC

Love American Journeys, LLC

Love Baking, LLC

Love Productions USA, Inc

Love Sewing, LLC

USA Love Development, LLC

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### 1801 Century Park East, #2160, Los Angeles CA 90067

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#### Name

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#### Indirect holdings

Znak & Co, LLC (*Membership interest (67.5%)*)

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### Incorporated in other overseas countries

#### Austria – Handelskai 92, 1200 Wien

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#### Name

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#### Indirect holdings

Sky Österreich Fernsehen GmbH

Sky Österreich Verwaltung GmbH

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### Belgium – Boulevard Charlemagne 1, 1041 Brussels

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#### Name

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#### Indirect holdings

Sky Channel SA

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### Hong Kong – Level 54, Hopewell Centre, 183 Queen's Road East

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#### Name

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#### Indirect holdings

Sky Manufacturing Services Limited

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### Ireland – Fifth Floor, One Burlington Plaza, Burlington Road, Dublin 4

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#### Name

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#### Indirect holdings

Sky Ireland Limited

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### Switzerland – Rue du Puits-Godet 10, Neuchâtel

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#### Name

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#### Indirect holdings

Homedia SA

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## Notes to the financial statements

### Switzerland – Rue du Puits-Godet 12, 2000 Neuchâtel

#### Name

#### Indirect holdings

Segevod Sàrl

### Switzerland – Stockerhof, Dreikönigstrasse 31A, CH8002 Zürich

#### Name

#### Indirect holdings

Sky International AG

## (ii) Investments in joint ventures and associates

The movement in the year was as follows:

|                         | 2017<br>£m | 2016<br>£m |
|-------------------------|------------|------------|
| <b>Cost and funding</b> |            |            |
| Beginning of year       | 90         | 90         |
| Subscription for shares | -          | -          |
| <b>End of year</b>      | <b>90</b>  | <b>90</b>  |
| <b>Amounts provided</b> |            |            |
| Beginning of year       | -          | -          |
| <b>End of year</b>      | <b>-</b>   | <b>-</b>   |
| <b>Net book value</b>   |            |            |
| Beginning of year       | 90         | 90         |
| <b>End of year</b>      | <b>90</b>  | <b>90</b>  |

Details of the investments in joint ventures and associates are as follows:

### Incorporated in England and Wales

#### 1 Queen Caroline Street, London, W6 9YN

| Name                     | Description and proportion of shares held (%) |
|--------------------------|---|
| <b>Indirect holdings</b> |   |
| AETN UK                  | 50.00%  |

#### 36 Cardiff Road, Llandaff, Cardiff CF5 2DR

| Name                       | Description and proportion of shares held (%) |
|----------------------------|---|
| <b>Indirect holdings</b>   |   |
| Avanti Media Group Limited | 25.00%  |
| Avanti Media Limited       | 25.00%  |

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## Notes to the financial statements

### 15 Bedford Street, London WC2E 9HE

| Name                   | Description and proportion of shares held (%) |
|------------------------|---|
| <b>Direct holdings</b> |   |
| Bolt Pro Tem Limited   | 33.33%  |

### 1<sup>st</sup> Floor Suite, 181b Kensington High Street, London W8 6SH

| Name                     | Description and proportion of shares held (%) |
|--------------------------|---|
| <b>Indirect holdings</b> |   |
| Chrysalis Vision Limited | 24.90%  |

### Brook Green House, 4 Rowan Road, London W6 7DU

| Name                         | Description and proportion of shares held (%) |
|------------------------------|---|
| <b>Indirect holdings</b>     |   |
| Colossus Productions Limited | 20.00%  |

### 2<sup>nd</sup> Floor, 27 Mortimer Street, London W1T 3JF

| Name                   | Description and proportion of shares held (%) |
|------------------------|---|
| <b>Direct holdings</b> |   |
| DTV Services Limited   | 20.00%  |

### Millbank Tower, 21-24 Millbank, London SW1P 4QP

| Name                     | Description and proportion of shares held (%) |
|--------------------------|---|
| <b>Indirect holdings</b> |   |
| GBI Racing Ltd           | 25.21%  |

### 6<sup>th</sup> Floor, One London Wall, London EC2Y 5EB

| Name                     | Description and proportion of shares held (%) |
|--------------------------|---|
| <b>Direct holdings</b>   |   |
| Internet Matters Limited | 25.00%  |

### 17-19 Hawley Crescent, Camden, London NW1 8TT

| Name                     | Description and proportion of shares held (%) |
|--------------------------|---|
| <b>Indirect holdings</b> |   |
| Nickelodeon UK Limited   | 40.00%  |
| Paramount UK Partnership | 25.00%  |

### 3 Park Square East, Leeds LS1 2NE

| Name                     | Description and proportion of shares held (%) |
|--------------------------|---|
| <b>Indirect holdings</b> |   |
| Pitch Music Limited      | 19.98%  |

## Notes to the financial statements

### 76 Charlotte Street, London W1T 4QS

| Name                    | Description and proportion of shares held (%) |
|-------------------------|---|
| Indirect holdings       |   |
| Popcorn Digital Limited | 42.50%  |

### St Albans House, 57-59 Haymarket, London SW1Y 4QX

| Name                            | Description and proportion of shares held (%) |
|---------------------------------|---|
| Indirect holdings               |   |
| Odeon and Sky Filmworks Limited | 50.00%  |

### 10-14 Accomodation Road, London NW11 8ED

| Name                | Description and proportion of shares held (%) |
|---------------------|---|
| Indirect holdings   |   |
| Sugar Films Limited | 24.90%  |

### Manning House 1<sup>st</sup> Floor, 22 Carlisle Place, London SW19 1JA

| Name                | Description and proportion of shares held (%) |
|---------------------|---|
| Indirect holdings   |   |
| Thinkbox TV Limited | 20.00%  |

### 15 Canada Square, Canary Wharf, London E14 5GL

| Name                 | Description and proportion of shares held (%) |
|----------------------|---|
| Indirect holdings    |   |
| Venture 2009 Limited | 50.00%  |

### Incorporated in other overseas countries

#### Channel Islands – 1 Waverley Place, Union Street, St Helier, Jersey JE1 1SG

| Name                    | Description and proportion of shares held (%) |
|-------------------------|---|
| Direct holdings         |   |
| Cyan Blue Topco Limited | 20.06%  |

#### USA – 874 Walker Rd, Suite C, Dover, DE 19904

| Name              | Description and proportion of shares held (%) |
|-------------------|---|
| Indirect holdings |   |
| Talos Films, LLC  | Membership interest (25.00%)                  |

#### UAE – P.O.Box 77845, Abu Dhabi

| Name                   | Description and proportion of shares held (%) |
|------------------------|---|
| Indirect holdings      |   |
| Sky News Arabia FZ-LLC | 50.00%  |

## Notes to the financial statements

### 13. Deferred tax

#### Recognised deferred tax (liability)/asset

|                           | Accelerated<br>tax<br>depreciation | Short-term<br>temporary<br>differences | Share-based<br>payments<br>temporary<br>differences | Financial<br>instrument<br>temporary<br>differences | Total     |
|---------------------------|------------------------------------|--|---|---|-----------|
|                           | £m                                 | £m                                     | £m  | £m  | £m        |
| At 1 July 2015            | 4                                  | -                                      | 55  | -   | 59        |
| Credit (charge) to income | (7)                                | 2                                      | (13)  | 5   | (13)      |
| Charge to equity          | -                                  | -                                      | (22)  | (34)  | (56)      |
| At 30 June 2016           | (3)                                | 2                                      | 20  | (29)  | (10)      |
| Credit (charge) to income | (4)                                | (3)                                    | 20  | (4)   | 9         |
| Credit to equity          | -                                  | -                                      | 5   | 14  | 19        |
| <b>At 30 June 2017</b>    | <b>(7)</b>                         | <b>(1)</b>                             | <b>45</b>   | <b>(19)</b>   | <b>18</b> |

There are no unrecognised deferred tax liabilities (2016: nil). There is an unrecognised deferred tax asset of £1 million (2016: £1 million) in respect of tax trading losses and £24 million in respect of tax capital losses (2016: £27 million). There is currently insufficient evidence to support the recognition of a deferred tax asset relating to these losses.

Deferred tax assets have been recognised at 30 June 2017 on the basis that management deems it probable that there will be suitable taxable profits against which these assets can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which they reverse. The rates enacted or substantively enacted for the relevant periods of reversal are: 19% from 1 April 2017 and 17% from 1 April 2020 in the UK (2016: 18%).

### 14. Inventories

|                             | 2017<br>£m | 2016<br>£m |
|-----------------------------|------------|------------|
| Television programme rights | 612        | 571        |
| Other inventories           | 24         | 8          |
| <b>Total inventory</b>      | <b>636</b> | <b>579</b> |

## Notes to the financial statements

### 15. Trade and other receivables

|  | Note | 2017<br>£m | 2016<br>£m |
|--|------|------------|------------|
| Gross trade receivables                                      |      | 229        | 163        |
| Less: provision for impairment of receivables                |      | (74)       | (62)       |
| Net trade receivables  |      | 155        | 101        |
| Amounts receivable from other Group companies <sup>(a)</sup> |      | 7,440      | 10,131     |
| Amounts receivable from subsidiaries <sup>(b)</sup>          |      | 349        | 313        |
| Amounts receivable from joint ventures and associates        |      | 8          | 12         |
| Amounts receivable from other related parties                | 27   | 2          | 2          |
| Prepayments  |      | 408        | 436        |
| Accrued income   |      | 226        | 208        |
| Other receivables  |      | 21         | 21         |
| Current trade and other receivables                          |      | 8,609      | 11,224     |
| Amounts receivable from joint ventures and associates        |      | -          | 77         |
| Non-current prepayments                                      |      | 5          | 3          |
| Other receivables  |      | 3          | 3          |
| Total non-current trade and other receivables                |      | 8          | 83         |
| Total trade and other receivables                            |      | 8,617      | 11,307     |

The ageing of the Company's net trade receivables past due not subject to impairment is as follows:

|                                    | 2017<br>£m | 2016<br>£m |
|------------------------------------|------------|------------|
| Up to thirty days past due date    | 146        | 90         |
| Thirty to sixty days past due date | 5          | 6          |
| Sixty to ninety days past due date | 2          | 3          |
| Ninety to 120 days past due date   | 1          | -          |
| More than 120 days past due date   | 1          | 2          |
|                                    | 155        | 101        |

#### Provisions for doubtful debts

|                              | 2017<br>£m | 2016<br>£m |
|------------------------------|------------|------------|
| Balance at beginning of year | 62         | 57         |
| Amounts utilised             | (12)       | (25)       |
| Income statement charge      | 24         | 30         |
| Balance at end of year       | 74         | 62         |

## Notes to the financial statements

### **a) Amounts receivable from other Group companies**

Amounts due from other Group companies as at 30 June 2017 are £7,440 million (2016: £10,131 million). £6,522 million (2016: £2,052 million) represent trade receivables, these are non-interest bearing and are repayable on demand. The balance of £918 million (2016: £8,079 million) are loans as detailed below:

On 15 September 2008, the Company entered into an agreement with Sky Holdings Limited ("SHL"). The loan is interest bearing at a rate of twelve month LIBOR plus 0.75% and is repayable on demand. On the 27 July 2011 the loan was converted into a revolving credit facility ("RCF") of up to £24 million. This facility is repayable on demand and is non-interest bearing. As at 30 June 2017 the balance of the loan was £22 million (2016: £22 million).

On 26 June 2009, the Company entered into a £380 million revolving credit facility ("RCF") agreement with Sky Operational Finance Limited (Sky Operational Finance Ltd). This facility is repayable on demand and is non-interest bearing. At 30 June 2017 the balance on this account was nil (2015: £371 million).

On 26 June 2009, the Company was assigned a £343 million receivable from Sky Operational Finance Ltd by Sky plc as settlement of its debt. As at 30 June 2017, the balance of this loan was nil (2016: £343 million). This loan is non-interest bearing and repayable on demand.

On 20 July 2011, the Company entered into a £900 million RCF agreement with Sky Operational Finance Ltd. This facility is repayable on demand and is non-interest bearing. At 30 June 2017 the balance on this account was nil (2016: £1,439 million).

On 5 November 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of up to €800 million. The loan is interest bearing at a rate of EURIBOR plus 1% and is repayable on demand. At 30 June 2017 the balance on the account was nil (2016: £320 million).

On 16 September 2014, the Company entered into various new loan agreements with Sky Operational Finance Ltd. These agreements are detailed below:

The Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €581 million. The loan is interest bearing at a rate of EURIBOR plus 0.6563% and is repayable on demand. At 30 June 2017 the balance on the account was nil (2016: £485 million).

The Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €969 million. The loan is interest bearing at a rate of 2.1867% and is repayable on demand. At 30 June 2017 the balance on the account was nil (2016: £813 million).

The Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €1,500 million. The loan is interest bearing at a rate of 1.5% and is repayable on demand. At 30 June 2017 the balance on the account was nil (2016: £1,265 million).

The Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €1,000 million. The loan is interest bearing at a rate of 2.5% and is repayable on demand. At 30 June 2017 the balance on the account was nil (2016: £850 million).

## Notes to the financial statements

### 15. Trade and other receivables (other) (continued)

#### a) Amounts receivable from other Group companies (continued)

On 11 November 2014 the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of up to €125 million. The loan is interest bearing at a rate of 3 month EURIBOR plus 1% and is repayable on demand. At 30 June 2017 the balance on the account was £183 million (2016: £121 million).

On 24 November 2014, the Company entered into further loan agreements with Sky Operational Finance Ltd. These agreements are detailed below:

The Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €850 million. The loan is interest bearing at a rate of 1.875% and is repayable on demand. At 30 June 2017 the balance on the account was nil (2016: £716 million).

The Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €126 million. The loan is interest bearing at a rate of 2.94% and is repayable on demand. At 30 June 2017 the balance on the account was nil (2016: £105 million).

On 27 November 2014, the Company entered into further loan agreements with Sky Operational Finance Ltd. These agreements are detailed below:

The Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €400 million. The loan is interest bearing at a rate of 2.75% and is repayable on demand. At 30 June 2017 the balance on the account was nil (2016: £339 million).

On 20 February 2015 the Company entered into a facility loan agreement with Sky Finance Europe Limited for an amount of up to €365 million. At 30 June 2017 the balance on the account was £322 million (2016: £304 million).

On 8 March 2017, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of up to £17 million. The loan is interest bearing at a rate of 1.5% per annum and is repayable on demand. At 30 June 2017 the balance on the account was £15 million (2016: nil).

On 12 April 2017, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of up to £300,000. The loan is interest bearing at a rate of 2% per annum and is repayable on demand. At 30 June 2017 the balance on the account was £300,000 (2016: nil).

The Company has entered into other RCFs and loans with other Group companies amounting to £376 million (2016: £586 million), all are non-interest bearing and repayable on demand.

Within the Company there is a concentration of risk within accounts receivable from other Group companies. No allowance has been recorded against amounts receivable from other Group companies (2016: no allowance) as the Company has assessed that all Group companies with which it holds debt have sufficient funds to repay the debt.

## Notes to the financial statements

### b) Amounts receivable from subsidiaries

Amounts due from subsidiaries as at 30 June 2017 are £349 million (2016: £313 million). £333 million (2016: £297 million) represent trade receivables, these balances are non-interest bearing and are repayable on demand.

£16 million (2016: £16 million) is made up of a £4 million non-interest bearing loan to Sky Ventures Limited that is repayable on demand (2016: £4 million). In addition on 17 October 2011 the Company entered into a £60 million RCF agreement with Sky Ventures Limited. This facility is repayable on demand and is non-interest bearing. At 30 June 2017, the balance on this account was £12 million (2016: £12 million).

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

### 16. Trade and other payables

|   | Note | 2017<br>£m    | 2016<br>£m    |
|---|------|---------------|---------------|
| Trade payables  |      | 1,115         | 942           |
| Amounts payable to the parent Company <sup>(a)</sup>    |      | 439           | 1,703         |
| Amounts payable to other Group companies <sup>(c)</sup> |      | 11,769        | 12,585        |
| Amounts payable to subsidiaries <sup>(b)</sup>          |      | 1,531         | 1,609         |
| Amounts owed to joint ventures and associates           |      | 9             | 14            |
| Amounts owed to other related parties                   | 27   | 109           | 102           |
| VAT   |      | 185           | 262           |
| Accruals  |      | 544           | 583           |
| Deferred income   |      | 381           | 368           |
| Other payables  |      | 70            | 47            |
|   |      | <b>16,152</b> | <b>18,215</b> |

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

### a) Amounts payable to the parent company

In July 1999, Sky issued US \$650 million of guaranteed notes and Sky plc loaned the proceeds to the Company. The Company is liable to the 8.200% external interest payments on the notes. The Company also pays the same rate of interest to Sky plc. As at 30 June 2017 the total of the loan was £46 million (2016: £45 million).

The Company also has trade payable balances with Sky plc of £393 million (2016: £1,658 million), these balances are non-interest bearing and are repayable on demand.

### b) Amounts payable to subsidiaries

All amounts are trade payables; these balances are non-interest bearing and are repayable on demand.

## Notes to the financial statements

### 16. Trade and other payables (continued)

#### c) Amounts payable to other Group companies

There are amounts due to other Group companies totalling £11,769 million (2016: £12,585 million) of which £7,695 million (2016: £1,440 million) are trade payables; these balances are non-interest bearing and are repayable on demand. There are £4,074 million (2016: £11,145 million) of intercompany RCFs and loans, of which £23 million (2016: £417 million) is non-interest bearing. All loans are repayable on demand.

On 16 October 2009, the Company entered into a loan agreement with Sky Group Finance plc for £611 million. Under the terms of the loan agreement interest is payable at one month LIBOR plus 2.00%. As at 30 June 2017 the balance of the loan plus interest was £741 million (2016: £724 million).

In November 2008, Sky issued a further US\$600 million of guaranteed notes, Sky loaned the bond proceeds to Sky Operational Finance Ltd which then loaned them on to the Company. Under the terms of this loan agreement the Company is liable to the 9.500% external interest payments on these bonds. The loan is repayable on demand. As at 30 June 2017, the total of the loan plus interest was nil (2016: £659 million).

On 15 September 2008, the Company entered into a £150 million RCF agreement with Sky Operational Finance Ltd and another with Sky Holdings Limited ("SHL"). At the same time the Company entered into reciprocal facilities on the same terms with Sky Group Finance plc. The facilities are repayable on demand and bear interest at a rate of twelve month LIBOR plus 1.00%. As at 30 June 2017 the cumulative balance of these loans plus interest was £97 million (2016: £97 million).

On 3 June 2013, the Company entered into a £503 million RCF agreement with Sky Operational Finance Limited. The facilities are repayable on demand and bear interest at a rate of 3.226%. As at 30 June 2017 the balance of this loan plus interest was nil (2016: £565 million).

On 24 July 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of £541 million. The loan is non-interest bearing and repayable on demand. As at 30 June 2017 the balance of this loan was £538 million (2016: £538 million).

On 30 July 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of £1,346 million. The loan is non-interest bearing and repayable on demand. As at 30 June 2017 the balance of this loan was £1,346 million (2016: £1,346 million).

On 15 September 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €1,500 million. The loan is repayable on demand and bears interest at a rate of 1.5%. As at 30 June 2017 the balance of this loan plus interest was nil (2016: £1,265 million).

On 15 September 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €1,000 million. The loan is repayable on demand and bears interest at a rate of 2.5%. As at 30 June 2017 the balance of this loan plus interest was nil (2016: £850 million).

On 16 September 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €581 million. The loan is repayable on demand and bears interest at a rate of EURIBOR and 0.6563%. As at 30 June 2017 the balance of this loan plus interest was nil (2016: £485 million).

## Notes to the financial statements

### 16. Trade and other payables (continued)

#### c) Amounts payable to other Group companies (continued)

On 16 September 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €969 million. The loan is repayable on demand and bears interest at a rate of 2.1867%. As at 30 June 2017 the balance of this loan plus interest was nil (2016: £813 million).

On 12 November 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of up to €200 million. The loan is repayable on demand and bears interest at a rate of 3 month EURIBOR. As at 30 June 2017 the balance of this loan plus interest was £249 million (2016: £186 million).

On 24 November 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €450 million. The loan is repayable on demand and bears interest at LIBOR plus 1.2296%. As at 30 June 2017 the balance of this loan plus interest was nil (2016: £451 million).

On 24 November 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of £200 million. The loan is repayable on demand and bears interest at 4%. As at 30 June 2017 the balance of the loan plus interest was nil (2016: £205 million).

On 27 November 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €400 million. The loan is repayable on demand and bears interest at 2.75%. As at 30 June 2017 the balance of the loan plus interest was nil (2016: £339 million).

On 27 November 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €850 million. The loan is repayable on demand and bears interest at 1.875%. As at 30 June 2017 the balance of the loan plus interest was nil (2016: £716 million).

On 27 November 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €126 million. The loan is repayable on demand and bears interest at 2.94%. As at 30 June 2017 the balance of the loan plus interest was nil (2016: £105 million).

On 27 November 2014, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of £408 million. The loan is repayable on demand and bears interest at 6 month LIBOR. As at 30 June 2017 the balance of the loan plus interest was £408 million (2016: £408 million).

On 26 February 2015, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of up to €140 million. The loan is non-interest bearing and repayable on demand. As at 30 June 2017 the balance of the loan was £123 million (2016: £116 million).

On 1 April 2015, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of €600 million. The loan is repayable on demand and bears interest at 3 month EURIBOR plus 0.75%. As at 30 June 2017 the balance of the loan was £188 million (2016: £500 million).

On 17 November 2015, the Company entered into an agreement with Sky Operational Finance Ltd for a loan amount of £356 million. The loan is repayable on demand and bears interest at 3.72% per annum. As at 30 June 2017 the balance of the loan was £358 million (2016: £358 million).

## Notes to the financial statements

### 16. Trade and other payables (continued)

#### c) Amounts payable to other Group companies (continued)

The Company has entered into other loans with other Group companies amounting to £3 million (2016: £2 million).

### 17. Provisions

|  | At 1<br>July<br>2015<br>£m | Reclassified<br>during the<br>year<br>£m | Provided<br>during<br>the year<br>£m | Utilised<br>during<br>the year<br>£m | At 30<br>June<br>2016<br>£m | Provided<br>during<br>the year<br>£m | Utilised<br>during<br>the year<br>£m | At 30<br>June<br>2017<br>£m |
|--|----------------------------|--|--------------------------------------|--------------------------------------|-----------------------------|--------------------------------------|--------------------------------------|-----------------------------|
| <b>Current liabilities</b>             |                            |  |                                      |                                      |                             |                                      |                                      |                             |
| Restructuring provision <sup>(i)</sup> | 14                         | -  | 29                                   | (14)                                 | 29                          | 18                                   | (40)                                 | 7                           |
| Property provisions <sup>(ii)</sup>    | 6                          | 11                                       | 5                                    | (2)                                  | 20                          | 6                                    | (23)                                 | 3                           |
| Other                                  | 13                         | -  | 2                                    | (6)                                  | 9                           | -                                    | (4)                                  | 5                           |
|  | 33                         | 11                                       | 36                                   | (22)                                 | 58                          | 24                                   | (67)                                 | 15                          |
| <b>Non-current liabilities</b>         |                            |  |                                      |                                      |                             |                                      |                                      |                             |
| Property provisions                    | 17                         | (11)                                     | 3                                    | (2)                                  | 7                           | -                                    | -                                    | 7                           |
| Other                                  | 9                          | -  | 11                                   | (9)                                  | 11                          | 12                                   | (18)                                 | 5                           |
|  | 26                         | (11)                                     | 14                                   | (11)                                 | 18                          | 12                                   | (18)                                 | 12                          |

(i) During the year ended 30 June 2016, the Company provided £29 million for the expected costs of a restructuring exercise undertaken. During the year end 30 June 2017, as part of a separate restructuring exercise the Company provided a further £18m for the expected costs.

(ii) The Company has provided amounts for onerous contracts for property leases, maintenance and legal disputes. The timing of the cash flows for onerous property leases and maintenance are dependent on the terms of the remaining leases. The timing of the cash flows for legal disputes cannot be reasonably determined.

### 18. Non-current trade and other payables

|   | 2017<br>£m | 2016<br>£m |
|---|------------|------------|
| <b>Non-current trade and other payables</b> |            |            |
| Other payables                              | 60         | 47         |
| Amounts owed to other related parties       | -          | 1          |
|   | 60         | 48         |

### 19. Borrowings

|                               | 2017<br>£m | 2016<br>£m |
|-------------------------------|------------|------------|
| <b>Current borrowings</b>     |            |            |
| Borrowings                    | -          | 6          |
| <b>Non-current borrowings</b> |            |            |
| Other non-current borrowings  | -          | 1          |

# Notes to the financial statements

## 20. Derivatives and other financial instruments

|  | 2017             |                |                  |                | 2016             |                |                  |                |
|--|------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|
|  | Asset            |                | Liabilities      |                | Asset            |                | Liabilities      |                |
|  | Fair value<br>£m | Notional<br>£m | Fair value<br>£m | Notional<br>£m | Fair value<br>£m | Notional<br>£m | Fair value<br>£m | Notional<br>£m |
| <b>Fair Value Hedges</b>                               |                  |                |                  |                |                  |                |                  |                |
| Cross-currency Swaps                                   | -                | -              | (230)            | 1,003          | -                | -              | (182)            | 1,003          |
| <b>Cash flow hedges:</b>                               |                  |                |                  |                |                  |                |                  |                |
| Forward exchange contracts                             | 24               | 1,067          | (5)              | 240            | 188              | 1,453          | -                | 3              |
| <b>Derivatives not in a formal hedge relationship:</b> |                  |                |                  |                |                  |                |                  |                |
| Forward exchange contracts                             | 50               | 2,579          | (53)             | 2,680          | 220              | 3,583          | (214)            | 3,468          |
| Cross-currency swaps                                   | 506              | 2,994          | (503)            | 2,994          | 428              | 2,994          | (430)            | 2,994          |
| Interest rate swaps                                    | 20               | 450            | (20)             | 450            | 30               | 450            | (30)             | 450            |
| Embedded Derivative                                    | -                | -              | (7)              | 67             | -                | -              | (8)              | 86             |
| <b>Total</b>   | <b>600</b>       | <b>7,090</b>   | <b>(818)</b>     | <b>7,434</b>   | <b>866</b>       | <b>8,480</b>   | <b>(864)</b>     | <b>8,004</b>   |

The maturity of the derivative financial instruments is as follows:

|                            | 2017       |              | 2016       |              |
|----------------------------|------------|--------------|------------|--------------|
|                            | Asset      | Liability    | Asset      | Liability    |
|                            | £m         | £m           | £m         | £m           |
| In one year or less        | 36         | (31)         | 187        | (123)        |
| Between one and two years  | 20         | (15)         | 102        | (56)         |
| Between two and five years | 206        | (206)        | 291        | (215)        |
| More than five years       | 338        | (566)        | 286        | (470)        |
| <b>Total</b>               | <b>600</b> | <b>(818)</b> | <b>866</b> | <b>(864)</b> |

## Notes to the financial statements

### **20. Derivatives and other financial instruments (continued)**

The Company's portfolio of rate derivatives is diversified by maturity, counterparty and type. Natural offsets between transactions within the portfolio and the designation of certain derivatives as hedges significantly reduce the risk of income statement volatility.

Counterparty exposure from all derivatives is managed within credit limits that ensure that there is no significant risk to any one counterparty. In addition to this deals are only executed with counterparties that have a long-term rating of "BBB" or better.

The Group's treasury function is responsible for raising finance for the Group's operations, together with associated liquidity management, and the 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 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 currently used are forward exchange contracts to hedge transactional and translational currency exposures.

#### **Hedge accounting classification and impact**

The Company designates its forward foreign exchange contracts as cash flow hedges of forecast foreign currency sales and purchases. Gains or losses are released from the hedging reserve and included 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 same periods as the related hedge items. If forecast transactions are no longer expected to occur, any amounts included in the hedging reserve related to that forecast transaction would be recognised directly in the income statement. During the current year gains of £86 million were removed from the hedging reserve and credited to inventories in the balance sheet (2016: gains of £6 million) and nil was removed from the hedging reserve and debited against prepayments in the balance sheet (2016: losses of £4 million) and nil was removed from the hedging reserve and credited to revenue in the income statement (2016: gains of £1 million).

Hedge effectiveness testing is performed quarterly using the dollar-offset approach. The actual movement in the hedging items is compared with the movement in the valuation of the hypothetically perfect hedge of the underlying risk at inception, and any ineffectiveness is recognised directly in the income statement. Less than £1 million of ineffectiveness was recognised in the income statement during the current year (2016: less than £1 million).

A hedge relationship is deemed to be effective if the ratio of changes in valuation of the underlying hedged item and the hedging instrument is within the range of 80% to 125%. Any relationship which has a ratio outside this range is deemed to be ineffective, at which point hedge accounting is suspended. During the year ended 30 June 2017, there were no instances in which the hedge relationship was not highly effective (2016: no instances).

## Notes to the financial statements

### 20. Derivatives and other financial instruments (continued)

#### (a) Carrying value and fair value

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

|                                  | Held to<br>maturity<br>investments | Available-for-<br>sale<br>investments | Derivatives<br>deemed<br>held for<br>trading | Derivatives<br>in hedging<br>relationship | Loans and<br>receivables | Other<br>liabilities | Total<br>carrying<br>value | Total fair<br>values |
|----------------------------------|------------------------------------|---------------------------------------|--|---|--------------------------|----------------------|----------------------------|----------------------|
|                                  | £m                                 | £m                                    | £m   | £m  | £m                       | £m                   | £m                         | £m                   |
| <b>At 30 June 2017</b>           |                                    |                                       |  |   |                          |                      |                            |                      |
| Derivative financial instruments | -                                  | -                                     | (7)  | (211)                                     | -                        | -                    | (218)                      | (218)                |
| Trade and other payables         | -                                  | -                                     | -  | -   | -                        | (15,734)             | (15,734)                   | (15,734)             |
| Available-for-sale investments   | -                                  | 3                                     | -  | -   | -                        | -                    | 3                          | 3                    |
| Trade and other receivables      | -                                  | -                                     | -  | -   | 8,235                    | -                    | 8,235                      | 8,235                |
| Short-term deposits              | 300                                | -                                     | -  | -   | -                        | -                    | 300                        | 300                  |
| Cash and cash equivalents        | -                                  | -                                     | -  | -   | 2,129                    | -                    | 2,129                      | 2,129                |
| <b>At 30 June 2016</b>           |                                    |                                       |  |   |                          |                      |                            |                      |
| Derivative financial instruments | -                                  | -                                     | (4)  | 6   | -                        | -                    | 2                          | 2                    |
| Trade and other payables         | -                                  | -                                     | -  | -   | -                        | (17,576)             | (17,576)                   | (17,576)             |
| Available-for-sale investments   | -                                  | 1                                     | -  | -   | -                        | -                    | 1                          | 1                    |
| Trade and other receivables      | -                                  | -                                     | -  | -   | 10,848                   | -                    | 10,848                     | 10,848               |
| Short-term deposits              | -                                  | -                                     | -  | -   | -                        | -                    | -                          | -                    |
| Cash and cash equivalents        | 825                                | -                                     | -  | -   | 1,269                    | -                    | 2,094                      | 2,094                |
| Other Borrowings                 | -                                  | -                                     | -  | -   | -                        | (7)                  | (7)                        | (7)                  |

## Notes to the financial statements

### **20. Derivatives and other financial instruments (continued)**

#### **(a) Carrying value and fair value (continued)**

The fair values of financial assets and financial liabilities are 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) is 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;
- Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts;
- The fair value of obligations under finance leases and other borrowings is estimated by discounting the future cash flows to net present value. The fair value of short-term deposits and cash and cash equivalents is equivalent to carrying value due to the short-term nature of these instruments.

The differences between carrying values and fair values reflect unrealised gains or losses inherent in the financial instruments, based on valuations as at 30 June 2017 and 30 June 2016. 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 held to maturity investments comprise money market deposits which have maturity dates of less than three months from inception. Money market deposits which have maturity greater than three months from inception are classified as short-term deposits. Cash and cash equivalents classified as loans and receivables mainly comprise investments in AAA rated money market funds which can be withdrawn without notice.

## Notes to the financial statements

### 20. Derivatives and other financial instruments (continued)

#### (b) Fair value hierarchy

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

|   | Fair value   | Level 1  | Level 2      | Level 3  |
|---|--------------|----------|--------------|----------|
|   | £m           | £m       | £m           | £m       |
| <b>At 30 June 2017</b>                        |              |          |              |          |
| <i>Financial assets</i>                       |              |          |              |          |
| Available-for-sale financial instruments      | 3            | -        | -            | 3        |
| Interest rate swaps                           | 20           | -        | 20           | -        |
| Cross currency swaps                          | 506          | -        | 506          | -        |
| Forward foreign exchange and option contracts | 74           | -        | 74           | -        |
| <b>Total</b>                                  | <b>603</b>   | <b>-</b> | <b>600</b>   | <b>3</b> |
| <i>Financial liabilities</i>                  |              |          |              |          |
| Interest rate swaps                           | (20)         | -        | (20)         | -        |
| Cross currency swaps                          | (733)        | -        | (733)        | -        |
| Forward foreign exchange and option contracts | (58)         | -        | (58)         | -        |
| Embedded Derivative                           | (7)          | -        | (7)          | -        |
| <b>Total</b>                                  | <b>(818)</b> | <b>-</b> | <b>(818)</b> | <b>-</b> |
| <b>At 30 June 2016</b>                        |              |          |              |          |
| <i>Financial assets</i>                       |              |          |              |          |
| Available-for-sale financial instruments      | 1            | -        | -            | 1        |
| Interest rate swaps                           | 30           | -        | 30           | -        |
| Cross currency swaps                          | 428          | -        | 428          | -        |
| Forward foreign exchange and option contracts | 408          | -        | 408          | -        |
| <b>Total</b>                                  | <b>867</b>   | <b>-</b> | <b>866</b>   | <b>1</b> |
| <i>Financial liabilities</i>                  |              |          |              |          |
| Interest rate swaps                           | (30)         | -        | (30)         | -        |
| Cross currency swaps                          | (612)        | -        | (612)        | -        |
| Forward foreign exchange and option contracts | (214)        | -        | (214)        | -        |
| Embedded Derivative                           | (8)          | -        | (8)          | -        |
| <b>Total</b>                                  | <b>(864)</b> | <b>-</b> | <b>(864)</b> | <b>-</b> |

#### 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.

## Notes to the financial statements

### 20. Derivatives and other financial instruments (continued)

#### (b) Fair value hierarchy (continued)

##### Level 3

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

The Company's available-for-sale investment in Johnston Press is carried at fair value and constitutes a Level 1 financial instrument in the fair value hierarchy. The Company's other available-for-sale financial assets are held at fair value and are categorised as Level 3 in the fair value hierarchy.

### 21. Financial risk management objectives and policies

The 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 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 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 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 plc's policies approved by its Board of Directors.

#### Liquidity risk

The Company's financial liabilities are shown in note 16, 17 and 18.

The following table analyses the Company's non-derivative 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. These amounts may not reconcile to the amounts disclosed on the balance sheet for provisions and trade and other payables.

## Notes to the financial statements

### 21. Financial risk management objectives and policies (continued)

#### Liquidity risk (continued)

|   | Less than 12<br>months<br>£m | Between one<br>and two years<br>£m | Between two<br>and five years<br>£m | More than five<br>years<br>£m |
|---|------------------------------|------------------------------------|-------------------------------------|-------------------------------|
| <b>At 30 June 2017</b>                      |                              |                                    |                                     |                               |
| <i>Non-derivative financial liabilities</i> |                              |                                    |                                     |                               |
| Trade and other payables                    | 15,204                       | 389                                | 128                                 | 14                            |
| Provisions                                  | 14                           | 6                                  | -                                   | -                             |
| <i>Gross settled derivatives</i>            |                              |                                    |                                     |                               |
| Outflow                                     | 3,450                        | 1,763                              | 4,252                               | 6,411                         |
| Inflow                                      | (3,466)                      | (1,782)                            | (4,288)                             | (6,261)                       |
| <b>At 30 June 2016</b>                      |                              |                                    |                                     |                               |
| <i>Non-derivative financial liabilities</i> |                              |                                    |                                     |                               |
| Trade and other payables                    | 17,432                       | 132                                | 7                                   | 5                             |
| Provisions                                  | 21                           | 11                                 | -                                   | -                             |
| <i>Gross settled derivatives</i>            |                              |                                    |                                     |                               |
| Outflow                                     | 4,052                        | 2,085                              | 4,876                               | 6,459                         |
| Inflow                                      | (4,125)                      | (2,141)                            | (4,990)                             | (6,339)                       |

#### Credit risk

The Company is exposed to default risk amounting to invested cash and cash equivalents and short-term deposits, and the positive fair value of derivative financial assets held. However, this risk is deemed to be low. Counterparty risk forms a central part of the Company's treasury policy, which is monitored and reported on regularly. The Company manages credit risk by diversifying its exposures across a wide number of counterparties, such that the maximum exposure to any individual counterparty was 7% (2016: 7%) of the total asset value of instruments at the end of the year. Treasury policies ensure that all derivative transactions are only effected with strong relationship banks and at the date of signing each carried a minimum credit rating of "Baa2" or equivalent from Standard and Poor's.

Credit risk in the Company's residential customer base is mitigated by billing and collecting in advance for digital television subscriptions for the majority of its residential customer base.

The Company's maximum exposure to credit risk on trade receivables is the carrying amounts as disclosed in note 15.

## Notes to the financial statements

### 21. Financial risk management objectives and policies (continued)

#### Interest rate risk

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

#### Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative financial instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

A one percentage point increase or decrease represents management's assessment of the reasonably possible change in interest rates. If interest rates had been one percentage point higher and all other variables were held constant, the Company's profit for the year ended 30 June 2017 would increase by £45 million (2016: profit for the year would increase by £26 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 changes as the Company's portfolio of debt, cash and foreign currency 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.

#### Foreign exchange risk

The Company's revenues are substantially denominated in pounds sterling, although a significant proportion of operating costs are denominated in US dollars. These costs relate mainly to the Company's programming contracts with US suppliers.

The Group hedges currency exposures on US dollar denominated highly probable cash flows by using forward exchange contracts purchased up to five years ahead of the cash flow and currently no longer hedges transactional euro exposures arising in the UK.

It is the Group's policy that all US dollar foreign currency exposures are substantially hedged in advance of the year in which they occur. At 30 June 2017, the Group had purchased forward foreign exchange contracts representing:

Approximately 90% (2016: 99%) of US dollar denominated costs falling due within one year and, on a declining basis across a five year planning horizon are hedged via:

## Notes to the financial statements

### 21. Financial risk management objectives and policies (continued)

#### Foreign exchange risk (continued)

- Outstanding commitments to purchase, in aggregate, \$2,714 million (2016: \$3,608 million) at an average exchange rate of £1 to \$1.34 (2016: £1 to \$1.53), of which \$934 million was purchased on behalf of other group companies.
- Outstanding commitments to sell, in aggregate, \$952 million (2016: \$1,558 million) at an average exchange rate of £1 to \$1.34 (2016: £1 to \$1.52), of which \$934 million was sold to other group companies.
- Outstanding commitments to purchase, in aggregate, \$1,787 million (2016: \$2,126 million) at an average exchange rate of £1 to \$1.17 (2016: £1 to €1.16), all of which was purchased on behalf of other group companies.
- Outstanding commitments to sell, in aggregate, \$1,788 million (2016: \$2,126 million) at an average exchange rate of £1 to €1.17 (2016: £1 to €1.16), of which \$1,787 million was sold to other group companies.

In respect of its legacy euro hedging programme and to hedge current Balance Sheet exposures:

- Outstanding commitments to sell, in aggregate, €507 million (2016: €750 million) at an average rate of £1.00 to €1.14 (2016: £1.00 to €1.28).
- Outstanding commitments to purchase, in aggregate, €442 million (2016: €802 million) at an average rate of £1.00 to €1.15 (2016: £1.00 to €1.27).
- Outstanding commitments to purchase, in aggregate, £73 million (2016: £66 million) at an average rate of £0.84 to €1.00 (2015: £0.79 to €1.00), all of which was purchased on behalf of other group companies.
- Outstanding commitments to sell, in aggregate, £73 million (2016: £66 million) at an average rate of £0.84 to €1.00 (2016: £0.79 to €1.00), all of which was sold to other group companies.

As such, the effective portion of the gain or loss on these contracts is reported as a component of the hedging reserve, outside the income statement, and is transferred to the income statement as the forecast transactions affect the income statement (i.e. when Euro or US dollar-denominated trade payables are retranslated and related programming inventory or prepayment are amortised through the income statement).

For forward exchange contracts, hedge accounting is applied to changes in the full fair value. Any hedge ineffectiveness on the forward exchange contracts is recognised directly in the income statement. The ongoing effectiveness testing is performed using the dollar-offset approach. If forecast transactions are no longer expected to occur, any amounts included in the hedging reserve related to that forecast transaction would be recognised directly in the income statement. Certain forward exchange contracts have not been designated as hedges and movements in their values continue to be recorded directly in the income statement.

It is the Company's policy that anticipated USD foreign currency exposures are substantially hedged in advance of the fiscal year in which the exposure occurs.

#### Foreign exchange sensitivity

The following analysis details the Company's sensitivity to movements in pounds sterling and 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 Dollar would have a beneficial impact on profit of £16 million (2016: beneficial impact of £3 million). The same move would have an adverse impact on other equity of £223 million (2016: adverse impact of £254 million).

## Notes to the financial statements

### 21. Financial risk management objectives and policies (continued)

#### Foreign exchange sensitivity (continued)

- A 25% weakening in pounds sterling against the Dollar would have a beneficial impact on profit of £27 million (2016: adverse impact of £5 million). The same move would have a beneficial impact on other equity of £372 million (2016: beneficial impact of £424 million).
- A 25% strengthening in pounds sterling against the Euro would have a beneficial impact on profit of £47 million (2016: beneficial impact of £64 million). The same move would have an adverse impact on other equity of £2 million (2016: beneficial impact of £85 million).
- A 25% weakening in pounds sterling against the Euro would have an adverse impact on profit of £77 million (2016: adverse impact of £106 million). The same move would have an adverse impact on other equity of £4 million (2016: adverse impact of £142 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 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.

#### Additional information

Cash and cash equivalents include nil (2016: £825 million) of held to maturity investments, which have maturity dates of less than three months from inception.

### 22. Share capital

|  | 2017 | 2016 |
|--|------|------|
|  | £m   | £m   |
| Allotted, called-up and fully paid                       |      |      |
| 10,002,002 (2016: 10,002,002) ordinary shares of £1 each | 10   | 10   |

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

## Notes to the financial statements

### 22. Share capital (continued)

#### 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, Sky.

The awards outstanding can be summarised as follows:

| Scheme   | 2017                      | 2016                      |
|--|---------------------------|---------------------------|
|  | Number of ordinary shares | Number of ordinary shares |
| Sharesave Scheme options <sup>(i)</sup>              | 4,673,598                 | 4,844,567                 |
| Management LTIP awards <sup>(ii)</sup>               | 23,418,466                | 16,768,586                |
| LTIP awards <sup>(iii)</sup>                         | 8,966,050                 | 6,485,425                 |
| Management Co-Investment LTIP awards <sup>(iv)</sup> | 2,127,050                 | 1,984,218                 |
| Co-Investment LTIP awards <sup>(v)</sup>             | 1,814,023                 | 1,739,882                 |
|  | 40,999,187                | 31,822,678                |

#### (i) Sharesave Scheme options

All Sharesave Scheme options outstanding at 30 June 2017 and 30 June 2016 have no performance criteria attached, other than the requirement that the employee remains in employment with the Company. Options granted under the Sharesave Scheme must be exercised within six months of the relevant award vesting date.

The Sharesave Scheme is open to all employees in the UK and Ireland. 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. It is the policy of the Group to make an invitation to employees to participate in the scheme following the announcement of the end of year results.

#### (ii) Management LTIP awards

All Management LTIP awards outstanding at 30 June 2017 and 30 June 2016 vest only if performance conditions are met. Awards granted under the Management LTIP must be exercised within five years of the relevant award vesting date.

The Company grants awards to selected employees under the Management LTIP. Awards under this scheme mirror 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) LTIP awards

All LTIP awards outstanding at 30 June 2017 and 30 June 2016 vest only if performance conditions are met. Awards granted under the LTIP must be exercised within five years of the relevant award vesting date.

The Company operates the LTIP for Executive Directors and Senior Executives. Awards under the scheme are granted in the form of a nil-priced option. The awards vest in full or in part dependent on the satisfaction of specified performance targets. For awards granted from July 2012 onwards, 30% of the award vested dependent

## Notes to the financial statements

### 22. Share capital (continued)

#### Share option and contingent share award schemes (continued)

##### (iii) LTIP awards (continued)

on TSR performance over a three year performance period, relative to the constituents of the FTSE 100 at the time of grant, and the remaining 70% vested dependent on performance against operational targets.

For awards that vest in 2017, the TSR performance condition was removed during the current year and replaced with operational performance targets. This was treated as a modification to the relevant awards. The fair value of the modified equity-settled share options at the time of modification was calculated using methodologies that are consistent with the calculation of the fair value of equity-settled share options granted during the year as explained in the section titled "Information for awards granted during the year".

##### (iv) Management Co-Investment LTIP awards

All Management Co-Investment LTIP awards outstanding at 30 June 2017 and 30 June 2016 vest only if performance conditions are met. Awards granted under the Management Co-Investment LTIP must be exercised within five years of the relevant award vesting date.

Sky grants awards to selected employees under the Management Co-Investment LTIP. Awards under this scheme mirror the Co-Investment LTIP, with the same performance conditions.

##### (v) Co-Investment LTIP awards

All Co-Investment LTIP awards outstanding at 30 June 2017 and 30 June 2016 vest only if performance conditions are met. Awards granted under the Co-Investment LTIP must be exercised within five years of the relevant award vesting date.

The Company operates the Co-Investment LTIP award for Executive Directors and Senior Executives. Employees who participate in the plan are granted a conditional award of shares based on the amount they have invested in Sky shares. The investment will be matched up to a maximum of 1.5 shares for every share invested, subject to a three-year EPS performance condition.

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

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

## Notes to the financial statements

### 22. Share capital (continued)

#### Share option and contingent share award schemes (continued)

|                             | 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 2015  | 5,081,331                     | 6.48                            | 37,594,526                    | 0.00                            | 42,675,857                    | 0.77                            |
| Granted during the year     | 1,579,102                     | 8.17                            | 10,410,059                    | 0.00                            | 11,989,161                    | 1.08                            |
| Exercised during the year   | (1,090,334)                   | 5.90                            | (18,975,176)                  | 0.00                            | (20,065,510)                  | 0.36                            |
| Forfeited during the year   | (708,072)                     | 7.21                            | (1,467,248)                   | 0.00                            | (2,175,320)                   | 2.02                            |
| Expired during the year     | (17,460)                      | 5.31                            | (584,050)                     | 0.00                            | (601,510)                     | 0.17                            |
| Outstanding at 30 June 2016 | <b>4,844,567</b>              | <b>7.06</b>                     | <b>26,978,111</b>             | <b>0.00</b>                     | <b>31,822,678</b>             | <b>1.07</b>                     |
| Granted during the year     | <b>2,541,033</b>              | <b>6.88</b>                     | <b>12,039,727</b>             | <b>0.00</b>                     | <b>14,580,760</b>             | <b>1.20</b>                     |
| Exercised during the year   | <b>(1,320,869)</b>            | <b>6.21</b>                     | <b>(1,554,670)</b>            | <b>0.00</b>                     | <b>(2,875,539)</b>            | <b>2.85</b>                     |
| Forfeited during the year   | <b>(1,381,185)</b>            | <b>7.21</b>                     | <b>(1,137,579)</b>            | <b>0.00</b>                     | <b>(2,518,764)</b>            | <b>3.95</b>                     |
| Expired during the year     | <b>(9,948)</b>                | <b>5.79</b>                     | <b>0</b>                      | <b>0.00</b>                     | <b>(9,948)</b>                | <b>5.79</b>                     |
| Outstanding at 30 June 2017 | <b>4,673,598</b>              | <b>7.16</b>                     | <b>36,325,589</b>             | <b>0.00</b>                     | <b>40,999,187</b>             | <b>0.82</b>                     |

The weighted average market price of Sky's shares at the date of exercise for share options exercised during the year was £9.46 (2016: £11.35).

The following table summarises information about share awards outstanding at 30 June:

|                          | Sharesave Scheme |   | Senior management schemes |   | Total             |   |
|--------------------------|------------------|---|---------------------------|---|-------------------|---|
|                          | 2017             | 2017  | 2017                      | 2017  | 2017              | 2017  |
|                          |                  | 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                                       |
| £0.00 - £1.00            | -                | -   | <b>36,325,589</b>         | <b>5.7</b>                                  | <b>36,325,589</b> | <b>5.7</b>                                  |
| £5.00 - £6.00            | <b>23,617</b>    | <b>0.1</b>                                  | -                         | -   | <b>23,617</b>     | <b>0.1</b>                                  |
| £6.00 - £7.00            | <b>2,621,049</b> | <b>3.2</b>                                  | -                         | -   | <b>2,621,049</b>  | <b>3.2</b>                                  |
| £7.00 - £8.00            | <b>1,073,730</b> | <b>1.5</b>                                  | -                         | -   | <b>1,073,730</b>  | <b>1.5</b>                                  |
| £8.00 - £9.00            | <b>955,202</b>   | <b>2.4</b>                                  | -                         | -   | <b>955,202</b>    | <b>2.4</b>                                  |
|                          | <b>4,673,598</b> | <b>2.6</b>                                  | <b>36,325,589</b>         | <b>5.7</b>                                  | <b>40,999,187</b> | <b>5.4</b>                                  |

## Notes to the financial statements

### 22. Share capital (continued)

#### Share option and contingent share award schemes (continued)

| Range of Exercise Prices | Sharesave Scheme |  | Senior management schemes |  | Total      |  |
|--------------------------|------------------|--|---------------------------|--|------------|--|
|                          | 2016             | 2016   | 2016                      | 2016   | 2016       | 2016   |
|                          | Number           | Weighted average remaining contractual life<br>Years | Number                    | Weighted average remaining contractual life<br>Years | Number     | Weighted average remaining contractual life<br>Years |
| £0.00 - £1.00            | -                | -  | 26,978,111                | 6.0  | 26,978,111 | 6.0  |
| £5.00 - £6.00            | 586,060          | 1.0  | -                         | -  | 586,060    | 1.0  |
| £6.00 - £7.00            | 1,420,881        | 1.5  | -                         | -  | 1,420,881  | 1.5  |
| £7.00 - £8.00            | 1,414,871        | 2.5  | -                         | -  | 1,414,871  | 2.5  |
| £8.00-£9.00              | 1,422,755        | 3.4  | -                         | -  | 1,422,755  | 3.4  |
|                          | 4,844,567        | 2.3  | 26,978,111                | 6.0  | 31,822,678 | 5.4  |

The exercise prices of options outstanding at 30 June 2017 ranged from nil to £8.17 (2016: nil to £8.17).

#### Information for awards granted during the year

The weighted average fair value of equity-settled share options granted during the year, as estimated at the date of grant, was £6.18 (2016: £8.79). 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 year 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.

The Monte-Carlo simulation model reflected the historical volatilities of Sky's share price and those of all other companies to which Sky's performance would be compared, over a period equal to the vesting period of the awards.

#### Weighted average fair value assumptions

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

The following weighted average assumptions were used in calculating these fair values:

## Notes to the financial statements

### 22. Share capital (continued)

#### Share option and contingent share award schemes (continued)

#### Weighted average fair value assumptions (continued)

##### (i) Sharesave Scheme

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 £1.19 (2016: £1.68). This was calculated using the Black-Scholes share option pricing model.

The following weighted average assumptions were used in calculating these fair values:

|                         | 2017             | 2016      |
|-------------------------|------------------|-----------|
| Share price             | <b>£8.35</b>     | £10.34    |
| Exercise price          | <b>£6.88</b>     | £8.17     |
| Expected volatility     | <b>20.7%</b>     | 18.3%     |
| Expected life           | <b>3.9 years</b> | 3.9 years |
| Expected dividends      | <b>3.4%</b>      | 3.3%      |
| Risk-free interest rate | <b>0.2%</b>      | 1.1%      |

##### (ii) Senior Management Schemes

The weighted average fair value of equity-settled share awards granted during the year under the Senior Management Schemes, as estimated at the date of grant, was £7.23 (2016: £9.86). The fair value of awards with market-based performance conditions was calculated using a Monte-Carlo simulation model. Awards granted as nil-priced options were treated as the award of a free share. For all other awards, fair value was calculated using the Black-Scholes share option pricing model.

The following weighted average assumptions were used in calculating these fair values:

|                         | 2017             | 2016      |
|-------------------------|------------------|-----------|
| Share price             | <b>£9.13</b>     | £11.16    |
| Exercise price          | <b>£0.00</b>     | £0.00     |
| Expected volatility     | <b>20.1%</b>     | 18.1%     |
| Expected life           | <b>3.0 years</b> | 2.1 years |
| Expected dividends      | <b>3.3%</b>      | 3.3%      |
| Risk-free interest rate | <b>0.2%</b>      | 0.8%      |

## Notes to the financial statements

### 23. Shareholder's equity

|                            | 2017<br>£m   | 2016<br>£m   |
|----------------------------|--------------|--------------|
| Share capital              | 10           | 10           |
| Hedging reserve            | 96           | 141          |
| Available-for-sale reserve | -            | (1)          |
| Retained earnings          | 1,391        | 1,591        |
|                            | <b>1,497</b> | <b>1,741</b> |

For the year ended 30 June 2017 there was a £267 million distribution made to Sky (2016: £671 million). The distribution was settled by the assignment of intercompany debt within the Sky Group.

#### Hedging reserve

Changes in the fair values of derivatives that are designated as cash flow hedges are initially recognised in the hedging reserve, and subsequently recognised in the income statement when the related hedged items are recognised in the income statement. In addition, deferred tax relating to these derivatives is also initially recognised in the hedging reserve prior to transfer to the income statement.

### 24. Notes to the Cash Flow Statement

| Reconciliation of profit before tax to cash generated from operations | 2017<br>£m   | 2016<br>£m |
|---|--------------|------------|
| <b>Profit before tax</b>  | <b>52</b>    | 172        |
| Depreciation and impairment of property, plant and equipment          | 82           | 81         |
| Impairment of investment in subsidiaries                              | 7            | 1          |
| Amortisation and impairment of intangible assets                      | 66           | 51         |
| Impairment of available-for-sale investment                           | -            | 4          |
| Share-based payment expense   | 121          | 86         |
| Investment income   | (140)        | (134)      |
| Finance costs   | 190          | 225        |
|   | <b>378</b>   | <b>485</b> |
| Decrease (increase) in trade and other receivables                    | 3,202        | (740)      |
| (Increase) in inventories   | (57)         | (65)       |
| (Decrease) increase in trade and other payables                       | (2,306)      | 1,231      |
| (Decrease) increase in provisions                                     | (49)         | 17         |
| Increase in derivative financial assets                               | 113          | 2          |
| <b>Cash generated from operations</b>                                 | <b>1,281</b> | <b>930</b> |

## Notes to the financial statements

### 25. Operating lease commitments

The minimum lease rentals to be paid under non-cancellable operating leases at 30 June are as follows:

|                              | 2017<br>£m | 2016<br>£m |
|------------------------------|------------|------------|
| Within one year              | 11         | 18         |
| Between one and two years    | 9          | 13         |
| Between two and three years  | 9          | 10         |
| Between three and four years | 8          | 9          |
| Between four and five years  | 4          | 5          |
| After five years             | 17         | 33         |
|                              | <b>58</b>  | <b>88</b>  |

The majority of operating leases relate to property. The rents payable under these leases are subject to renegotiation at the various intervals specified in the leases.

### 26. Contracted commitments, contingencies and guarantees

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

|   | Less than 1 year<br>£m | Between 1 and<br>5 years<br>£m | After 5<br>Years<br>£m | Total at 30<br>June 2017<br>£m | Total at 30<br>June 2016<br>£m |
|---|------------------------|--------------------------------|------------------------|--------------------------------|--------------------------------|
| Television<br>programme rights          | 2,402                  | 4,761                          | 1,210                  | <b>8,373</b>                   | 9,306                          |
| Third party<br>payments <sup>(i)</sup>  | 82                     | 147                            | -                      | <b>229</b>                     | 121                            |
| Transponder<br>capacity <sup>(ii)</sup> | 81                     | 225                            | 78                     | <b>384</b>                     | 431                            |
| Property, plant and<br>equipment        | 1                      | -                              | -                      | <b>1</b>                       | 3                              |
| Intangible asset                        | 5                      | 1                              | -                      | <b>6</b>                       | 34                             |
| Other                                   | 300                    | 188                            | 4                      | <b>492</b>                     | 369                            |
|   |                        |                                |                        | <b>9,485</b>                   | 10,264                         |

(i) The third party payment commitments are in respect of distribution agreements for the television channels owned and broadcast by third parties, retailed by the Group to retail and commercial subscribers ("Sky Distributed Channels").

(ii) Transponder capacity commitments are in respect of the SES satellites that the Group uses for digital transmissions to both retail subscribers and cable operators.

Foreign currency commitments are translated to pounds sterling at the rate prevailing at the balance sheet date.

## Notes to the financial statements

### 26. Contracted commitments, contingencies and guarantees (continued)

#### b) Contingencies and guarantees

The following guarantees are in place relating to the Group's borrowings: (a) the Company, Sky Subscribers Services Limited ("SSSL"), Sky Group Finance plc, Sky Telecommunications Services Limited and Sky CP Limited ("Sky CP") have given joint and several guarantees in relation to the Group's £1 billion RCF and outstanding Guaranteed Notes by its ultimate parent undertaking, Sky plc. (b) the Company, SSSL, Sky plc, Sky CP, and Sky Telecommunications Services Limited have given joint and several guarantees in relation to the outstanding Guaranteed Notes issued by Sky Group Finance plc.

### 27. Transactions with related parties

#### a) Major shareholders of Sky plc

The Company conducts business transactions with companies that form part of the Twenty-First Century Fox, Inc group, a major shareholder of Sky plc, the ultimate parent undertaking of the Company:

|  | 2017  | 2016  |
|--|-------|-------|
|  | £m    | £m    |
| Supply of services by the Company            | 23    | 25    |
| Purchases of goods / services by the Company | (190) | (205) |
| Amounts owed to the Company                  | 2     | 2     |
| Amounts owed by the Company                  | (109) | (102) |

#### Services supplied to Twenty-First Century Fox

During the year, the Company supplied programming, airtime, transmission, transponder facilities, marketing consultancy services, channel distribution services and set-top boxes to Twenty-First Century Fox, Inc companies.

#### Purchases of goods and services and certain other relationships with Twenty-First Century Fox

During the year, the Company purchased programming, technical and marketing services from Twenty-First Century Fox, Inc.

#### b) Key management

The Company has a related party relationship with the Directors of the Company as key management. At 30 June 2017, there were two (2016: two) key managers, both of whom were Directors of the Company. For further details, see note 7(b).

#### c) Transactions with parent company

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, the Company received £1,069 million (2016: paid £214 million) on behalf of Sky plc.

## Notes to the financial statements

### 27. Transactions with related parties (continued)

#### d) Transactions with subsidiaries

The Company conducts business transactions with subsidiaries:

|  | 2017    | 2016    |
|--|---------|---------|
|  | £m      | £m      |
| Supply of services by the Company            | 33      | 22      |
| Purchases of goods / services by the Company | (2,101) | (2,922) |

For details of amounts owed by and owed to subsidiaries, see note 15 and note 16.

Principal services supplied to subsidiaries:

- Supply of access to selected third party channels.

Principal goods/services purchased from subsidiaries:

- Installation services and box costs
- Call handling services
- Telemarketing services
- Subscriber handling
- Intellectual property rights

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, the Company paid £2,674 million on behalf of its subsidiaries (2016: Company paid £3,181 million).

#### e) Transactions with joint ventures and associates

Amounts owed by joint ventures and associates includes £16 million (2016: £77 million) relating to loan funding. These loans bear interest at rates of between 1.50% and 2.00% (2016: 8.20%). The maximum amount of loan funding outstanding in total from joint ventures and associates during the year was £100 million (2016: £77 million). Sky Bet repaid £83 million pursuant to an outstanding loan balance.

#### f) Transactions with other Group companies

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 other Group companies as required. Under this policy the Company paid £1,952 million on behalf of other Group companies during the year (2016: paid £404 million).

#### g) Forward contracts on behalf of Sky In Home Service Limited

The Company took out a number of forward contracts with counterparty banks during fiscal year 2015 on behalf of its subsidiary Sky In-Home Service Limited (SIHS Ltd). On the same dates as these forward contracts were entered into, the Company entered into equal and opposite contracts with SIHS Ltd in respect of these forward contracts.

The Company was not exposed to any of the net gains or losses on these forward contracts. The face value of the forward contracts that had not matured as at 30 June 2017 was £604 million (2016: £1,023 million).

## Notes to the financial statements

### **27. Transactions with related parties (continued)**

#### **g) Forward contracts on behalf of Sky In Home Service Limited (continued)**

During the year, US\$567 million (2016: US\$497 million) was paid to SIHS Ltd upon maturity/termination of forward exchange contracts and £300 million (2016: £322 million) was received from SIHS Ltd upon maturity/termination of forward exchange contracts.

#### **h) Forward contracts on behalf of Sky Italia**

The Company took out a number of foreign exchange contracts with counterparty banks during fiscal year 2015 on behalf of the indirect subsidiary Sky Italia. On the same dates as these forward contracts were entered into, the Company entered into equal and opposite contracts with Sky Italia in respect of these forward contracts.

The Company was not exposed to any of the net gains or losses on these forward contracts. The face value of the forward contracts that had not matured as at 30 June 2017 was £862 million (2016: £1,013 million).

During the year, US\$416 million (2016: US\$436 million) was paid to Sky Italia upon maturity of forward exchange contracts, £24 million (2016: £6 million) was paid to Sky Italia upon maturity of forward exchange contracts and €392 million (2016: €378 million) was received from Sky Italia upon maturity of forward exchange contracts.

#### **i) Forward contracts on behalf of Sky Deutschland**

The Company took out a number of forward exchange contracts with counterparty banks during fiscal year 2015 on behalf of the indirect subsidiary Sky Deutschland AG. On the same dates as these forward contracts were entered into, the Company entered into equal and opposite contracts with Sky Deutschland AG in respect of these forward contracts.

The Company was not exposed to any of the net gains or losses on these forward contracts. The face value of the forward contracts that had not matured as at 30 June 2017 was £591 million (2016: £653 million).

During the year, US \$195 million (2016: US \$100 million) was paid to Sky Deutschland AG upon maturity of forward exchange contracts, £17 million (2016: £16 million) was paid to Sky Deutschland AG upon maturity of forward exchange contracts, CHF 17 million (2016: nil) was paid to Sky Deutschland AG upon maturity of forward exchange contracts and €209 million (2016: €108 million) was received from Sky Deutschland AG upon maturity of forward exchange contracts.

#### **j) Derivative contracts on behalf of Sky plc**

The Company was not exposed to any of the net gains or losses on these derivative contracts. The face value of the swaps that had not matured as at 30 June 2017 was £3,444 million (2016: £3,444 million).

#### **k) Derivative contracts on behalf of Sky CP Limited ("Sky CP Ltd")**

The Company took out a number of forward exchange contracts with counterparty banks during the prior year on behalf of the indirect subsidiary Sky CP Ltd. On the same dates as these forward contracts were entered into, the Company entered into equal and opposite contracts with Sky CP Ltd in respect of these forward contracts.

## Notes to the financial statements

### **27. Transactions with related parties (continued)**

#### **k) Derivative contracts on behalf of Sky CP Limited ("Sky CP Ltd")**

The Company was not exposed to any of the net gains or losses on these forward contracts. The face value of the forward contracts that had not matured as at 30 June 2017 was £103 million (2016: £81 million).

During the year, £5 million (2016: nil) was paid to Sky CP Ltd upon termination of forward exchange contracts.

### **28. Ultimate parent undertaking**

The Company is a wholly-owned subsidiary undertaking of Sky plc ("Sky"), a company incorporated in the United Kingdom and registered in England and Wales. The Company operates together with Sky's other subsidiaries, as a part of the Sky Group (the "Group"). Sky plc is the largest and smallest group of which the Company is a member and for which group financial statements are prepared.

The consolidated financial statements of the Group are available to the public and may be obtained from the Company Secretary, Sky plc, Grant Way, Isleworth, Middlesex, TW7 5QD.

### **29. Post balance sheet event**

The continued strong performance of the Company's associate Sky Bet since it sold an 80% stake of the business to CVC Capital Partners, and subsequent re-capitalisation, has enabled a significant cash distribution to Sky Bet Shareholders amounting to £113 million paid to the Company in September 2017.