

# SKY GROUP FINANCE PLC

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

Registered number: 05576975



## Directors and Officers

For the year ended 30 June 2017

### **Directors**

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

A J Griffith

C J Taylor

### **Company secretary**

C J Taylor

### **Registered office**

Grant Way

Isleworth

Middlesex

TW7 5QD

### **Auditor**

Deloitte LLP

Statutory Auditor

London

United Kingdom

# Strategic and Directors' Report

## Strategic Report

The Directors present their Strategic and Directors' Report on the affairs of the Company, together with the financial statements and Auditor's Report for the 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 principally owned by Sky plc ("Sky"), one share is owned by Sky UK Limited and operates together with Sky's other subsidiaries as a part of the Sky Group ("the Group").

The Company's principal activity is to assist in financing the operations of the Group. The Directors are not aware, at the date of this report, of any major changes in the Company's activities in the next year.

The audited financial statements for the year ended 30 June 2017 are set out on pages 12 to 32. The loss for the year was £16,909,000 (2016: £27,521,000 loss). During the year the Company had investment income of £17,337,000 (2016: £18,985,000) and finance costs of £34,861,000 (2016: £48,965,000). The decrease in finance costs is driven by foreign exchange and interest rate mark-to-market movements on derivative financial instruments and hedged items in designated fair value hedge accounting relationships.

The Balance Sheet shows that the Company's shareholders' position at the end of the year was £464,571,000 (2016: £495,620,000). This was driven by the loss for the year and loss on cash flow hedges.

## Key performance indicators (KPIs)

The Group manages its operations on a divisional basis and the KPIs used are as reported in the Group Annual Report. The Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the Company.

## Principal risks and uncertainties

The Company's activities expose it to financial risks, namely market risk, interest rate risk, foreign exchange risk, credit risk and liquidity risk.

## Financial risk management objectives and policies

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

The primary risks of the Company relate to derivative and other financial instruments. The Company transacts in derivative financial instruments for risk management purposes only. It is the Company's policy that all hedging is to cover known risks and that no speculative trading in financial instruments is undertaken. Following evaluation of those market risks, the Company 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 to hedge exposures on long-term foreign currency debt. See note 10 for further details.

## 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.

## Strategic and Directors' Report (continued)

### Interest rate risk

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

### Foreign exchange risk

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates. The Company uses foreign exchange forward contracts to hedge these exposures. Refer to note 11 for further information.

### Credit risk

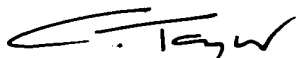
The Company is exposed to the credit risk of amounts receivable from Group companies and the Company is therefore exposed to those risks and uncertainties that affect the Group as a whole. The Balance Sheet of the Company includes intercompany balances. The Company is therefore exposed to credit risk on these balances. The intercompany balances of the Company are detailed in notes 7 and 8.

### 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 ("RCF") which is due to expire on 30 November 2021. The Company benefits from this liquidity through intra-group facilities and loans.

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

By Order of the Board,



C J Taylor  
Director

Grant Way  
Isleworth  
Middlesex  
TW7 5QD

30 October 2017

## Strategic and Directors' Report (continued)

### Directors' Report

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

During the year ended 30 June 2017 the Directors proposed a dividend of £nil (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 Director's report.

### Going concern

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

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

### Auditor

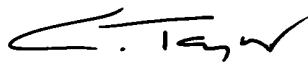
In accordance with the provisions of Section 418 of the Companies Act 2006, each of the persons who are Directors of the Company at the date of approval of this report confirms that:

so far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and

the Director has taken all the steps that 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 30 October 2017

By Order of the Board,



C J Taylor  
Director

Grant Way  
Isleworth  
Middlesex  
TW7 5QD

30 October 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 are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. 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.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

This responsibility statement was approved by the Board of Directors on 9 October 2017 and is signed on its behalf by:



C J Taylor  
Director

Grant Way  
Isleworth  
Middlesex  
TW7 5QD

October 2017

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## Auditor's report

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF Sky Group Finance plc

#### 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<sup>th</sup> June 2017 and of its loss 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 Group Finance Plc plc (the 'company') which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the statement of accounting policies; and
- the related notes 1 to 17.

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

##### Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

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

##### Summary of our audit approach

<b>Key audit matters</b>	The key audit matters that we identified in the current year were: <ul style="list-style-type: none"><li>• <i>Completeness and Existence of Derivative Instruments.</i></li><li>• <i>Recoverability of Debtors</i></li></ul>
<b>Materiality</b>	The materiality that we used in the current year was £24m which was determined on the basis of total assets. This represents 2% of total assets.
<b>Scoping</b>	Our audit scope is consistent with the prior year, and includes the entities full operations. As a result, all the entities assets, liabilities and profit / loss are subject to audit.

## Auditor's report

### Significant changes in our approach

There were no changes in scope or audit matters identified in the current year.

### 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.**

### Key audit matters


Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.




## Auditor's report

### Completeness and Existence of Derivative Instruments.

<b>Key audit matter description</b> 	<p>Sky Group Finance Plc uses complex derivative instruments in order to hedge interest rates, as set out in note 10 of the Financial Statements. A number of instruments are individually material, and therefore there is a risk that inappropriate recognition or exclusion of a financial instrument could lead to a material misstatement in derivative asset values.</p> <p>As required by the ISAs (UK) we have identified a risk in relation to fraud. Our identified risk is in respect of manual adjustments made to include or exclude individual derivatives.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>Our procedures performed included:</p> <ul style="list-style-type: none"> <li>• Addressing the fraud risk by obtaining independent counterparty confirmations to confirm existence of financial assets.</li> <li>• Addressing the Fraud Risk by the circularising of independent counterparties to confirm completeness of financial assets and liabilities; and</li> <li>• Assessing the design and implementation and testing the operating effectiveness of controls in respect of recognition of derivatives.</li> </ul>
<b>Key observations</b>	<p>Based on our work, we consider that derivative instruments disclosed are complete, have been recognised appropriately and are in accordance with the entity accounting policy.</p>

### Recoverability of Intercompany Debtors

<b>Key audit matter description</b> 	<p>Intercompany debtors is a highly material balance within the financial statements, as set out in Note 7 of the Financial Statements. Judgement is required in assessing that all disclosed debtor assets are recoverable under IAS 39, Financial Instruments: Recognition and Measurement.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>Our procedures performed included:</p> <ul style="list-style-type: none"> <li>• Agreeing intercompany debtors to intercompany counterparties.</li> <li>• Assessing counterparty credit risk to determine if any impairment is required.</li> </ul>
<b>Key observations</b>	<p>Based on our work, we consider that debtors are recoverable and are recognised in accordance with the entity's accounting policy.</p>

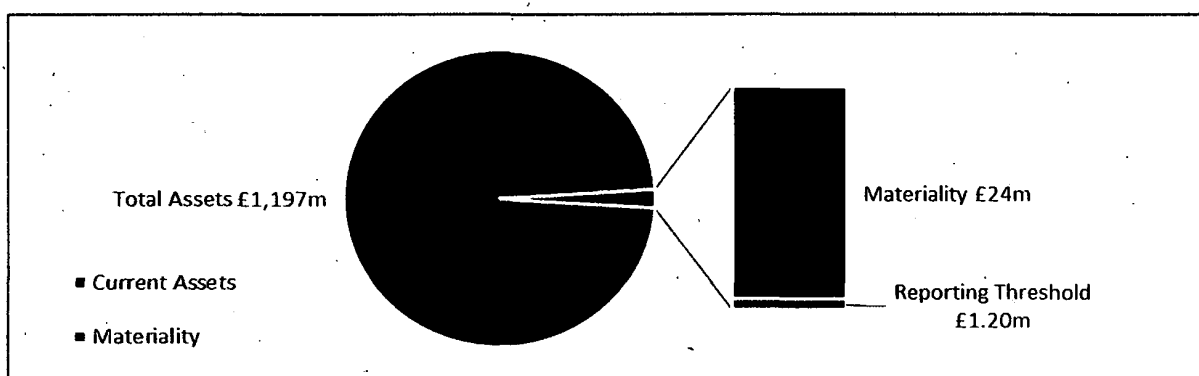
### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

## Auditor's report

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Materiality</b>	£24m (2016: £25m)
<b>Basis for determining materiality</b>	2% of Total Assets
<b>Rationale for the benchmark applied</b>	The entity primarily exists to finance the operations of the wider group. The total assets which the company holds exist to carry out this function, and as such are of key importance to the operations of the entity.



We agreed with those charged with governance that we would report all audit differences in excess of £1.20m (2016: £1.25m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to those charged with governance on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### An overview of the scope of our audit

Our audit scope is consistent with the prior year, and includes the entities Assets, Liabilities and full Income Statement for the year ended 30<sup>th</sup> June 2017. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. The Audit Partner visited the company, attending key meetings with local management.

### 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.

***We have nothing to report in respect of these matters.***

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

## Auditor's report

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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.

### Responsibilities of directors

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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

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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

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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

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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.

## Auditor's report

### Matters on which we are required to report by exception

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#### *Adequacy of explanations received and accounting records*

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

***We have nothing to report in respect of these matters.***

#### *Directors' remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

***We have nothing to report in respect of this matter.***

### Other matters

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#### *Auditor tenure*

Following the resolution of the board of directors, we were appointed by the Directors on 31<sup>st</sup> October 2017 to audit the financial statements for the year ending 30<sup>th</sup> June 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 11 years covering the years ending 30<sup>th</sup> June 2006 to 30<sup>th</sup> June 2017.

#### *Consistency of the audit report with the additional report to those charged with governance*

Our audit opinion is consistent with the additional report to those charged with governance we are required to provide in accordance with ISAs (UK).



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

30 October 2017

## Income Statement

For the year ended 30 June 2017

	Notes	2017 £'000	2016 £'000
Investment income	2	17,337	18,985
Finance costs	2	(34,861)	(48,965)
<b>Loss before tax</b>	3	<b>(17,524)</b>	(29,980)
Tax	4	615	2,459
<b>Loss for the year attributable to equity shareholders</b>		<b>(16,909)</b>	(27,521)

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 £'000	2016 £'000
<b>Loss for the year attributable to equity shareholders</b>	<b>(16,909)</b>	(27,521)
<b>Other comprehensive income</b>		
<b>Amounts recognised directly in equity that may subsequently be recycled to the income statement</b>		
(Loss)/gain on cash flow hedges	(10,861)	65,512
Tax on cash flow hedges	2,148	(12,226)
	<b>(8,713)</b>	53,286
<b>Amounts reclassified and reported in the income statement</b>		
Gain on cash flow hedges	(6,764)	(47,241)
Tax on cash flow hedges	1,337	8,816
	<b>(5,427)</b>	(38,425)
<b>Other comprehensive (loss)/ gain for the year (net of tax)</b>	<b>(14,140)</b>	14,861
<b>Total comprehensive loss for the year attributable to equity shareholders</b>	<b>(31,049)</b>	(12,660)

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

All results relate to continuing operations.

## Statement of Changes in Equity

For the year ended 30 June 2017

	Share capital	Hedging Reserve	Retained earnings	Total shareholders' equity
	£'000	£'000	£'000	£'000
<b>At 1 July 2015</b>	<b>50</b>	<b>4,950</b>	<b>503,280</b>	<b>508,280</b>
Loss for the year	-	-	(27,521)	(27,521)
Recognition and transfer of cash flow hedges	-	18,271	-	18,271
Tax on items taken directly to equity	-	(3,410)	-	(3,410)
<b>Total comprehensive gain/(loss) for the year</b>	<b>-</b>	<b>14,861</b>	<b>(27,521)</b>	<b>(12,660)</b>
<b>At 30 June 2016</b>	<b>50</b>	<b>19,811</b>	<b>475,759</b>	<b>495,620</b>
Loss for the year	-	-	(16,909)	(16,909)
Recognition and transfer of cash flow hedges	-	(17,625)	-	(17,625)
Tax on items taken directly to equity	-	3,485	-	3,485
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>(14,140)</b>	<b>(16,909)</b>	<b>(31,049)</b>
<b>At 30 June 2017</b>	<b>50</b>	<b>5,671</b>	<b>458,850</b>	<b>464,571</b>

For a description of the nature and purpose of each equity reserve, see note 13.

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

# Balance Sheet

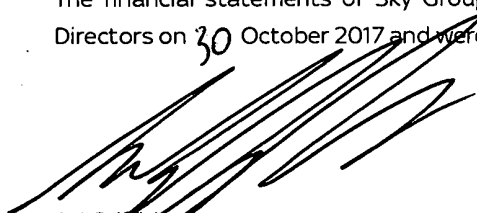
As at 30 June 2017

	Notes	2017 £'000	2016 £'000
<b>Non-current assets</b>			
Investment in subsidiaries	5	225,825	225,825
Derivative financial assets	10	78,278	94,300
		<b>304,103</b>	320,125
<b>Current assets</b>			
Trade and other receivables	7	890,136	1,429,399
Derivative financial assets	10	2,808	-
		<b>892,944</b>	1,429,399
<b>Total assets</b>		<b>1,197,047</b>	1,749,524
<b>Current liabilities</b>			
Borrowings	9	398,258	-
Trade and other payables	8	66,368	590,844
		<b>464,626</b>	590,844
<b>Non-current liabilities</b>			
Borrowings	9	265,441	656,551
Deferred tax liabilities	6	2,409	6,509
		<b>267,850</b>	663,060
<b>Total liabilities</b>		<b>732,476</b>	1,253,904
Share capital	12	50	50
Reserves	13	464,521	495,570
<b>Total equity attributable to equity shareholders</b>		<b>464,571</b>	495,620
<b>Total liabilities and shareholders' equity</b>		<b>1,197,047</b>	1,749,524

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

As at 30 June 2017 and 30 June 2016, the Company did not have any cash or cash equivalents. Accordingly, no cash flow statement or reconciliation of operating profit to cash flows from operating activities has been prepared.

The financial statements of Sky Group Finance plc, registered number 05576975, were approved by the Board of Directors on 30 October 2017 and were signed on its behalf by:



A J Griffith

Director

30 October 2017



## Notes to the financial statements

### 1. Accounting policies

Sky Group Finance plc (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 an 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 financial statements have been prepared on the going concern basis (as set out in the Directors' Report).

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 and to refer to the accounting period as a "year" for reporting purposes. 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 which prepares consolidated financial statements which are publicly available (see note 16).

#### c) 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 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.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

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

##### 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 are 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 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. 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.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### d) 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. 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.

#### ii. 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.

#### iii. 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.

#### iv. 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.

#### e) 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 profit. 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.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### e) Tax, including deferred tax (continued)

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and adjusted to reflect an amount that is probable to be realised based on the weight of all available evidence. Deferred tax is calculated at the rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets and liabilities are not discounted. Deferred tax is charged or credited in the Income Statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also included within equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Company intends to settle its current tax assets and liabilities on a net basis.

#### f) 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.

#### g) 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.

- 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.\*
- 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.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

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

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

\* not yet endorsed for use in the EU

#### **h) 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, in the Directors' judgement, its selection or application materially affects the Company's financial position or results. Below is a summary of the Company's critical accounting policies and details of the key areas of judgement that are exercised in their application.

#### **i. Tax, including deferred tax (see notes 4 and 6)**

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

Provisions for tax contingencies require management to make judgements and estimates in relation to tax audit issues and exposures. Amounts provided 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.

## Notes to the financial statements (continued)

### 2. Investment income and finance costs

	2017 £'000	2016 £'000
<b>Investment income</b>		
Intercompany interest receivable <sup>(i)</sup>	17,337	18,985
	<b>2017 £'000</b>	<b>2016 £'000</b>
<b>Finance costs</b>		
<b>- Interest payable and similar charges</b>		
US\$750 million of 5.625% Guaranteed Notes repayable in 2015 <sup>(ii)</sup>	-	(4,050)
£400 million of 5.750% Guaranteed Notes repayable in 2017 <sup>(ii)</sup>	(20,617)	(21,028)
US\$350 million of 6.500% Guaranteed Notes repayable in 2035 <sup>(ii)</sup>	(11,800)	(12,018)
	<b>(32,417)</b>	<b>(37,096)</b>
<b>- Other finance income (expense)</b>		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	(2,462)	(11,804)
Loss arising on derivatives in a designated fair value hedge accounting relationship	(2,672)	(13,362)
Gain arising on adjustment for hedged item in a designated fair value hedge accounting relationship	2,690	13,297
	<b>(34,861)</b>	<b>(48,965)</b>

(i) Intercompany interest is receivable on interest receivable on balances of £741 million (2016: £724 million) and £51 million (2016: £51 million) both with Sky UK Limited. These loans are repayable on demand and bear interest at one month LIBOR plus 2% and twelve month LIBOR plus 0.75% respectively.

(ii) In October 2005, the Company issued Guaranteed Notes consisting of US\$750 million aggregate principal amount of notes paying 5.625% interest and maturing on 15 October 2015, £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. On 15 October 2015, the Company repaid in full its US\$750 million of 5.625% Guaranteed Notes.

### 3. Loss before tax

Loss before tax is stated after charging:

#### Employee Services

There were no employee costs during the year, as the Company had no employees, other than the Directors. Services are provided by employees of other companies within the Group with no charge being made for their services. The Directors did not receive any remuneration during the year in respect of their services to the Company.

#### Audit fees

Amounts paid to the auditor for the audit of the Company's annual financial statements of £10,500 (2016: £10,500) were borne by another Group company in 2017 and 2016. No amounts for other services have been paid to the auditor.

## Notes to the financial statements (continued)

### 4. Tax

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

	2017 £'000	2016 £'000
<b>Current tax expense</b>		
Adjustment in respect of prior years	-	-
<b>Total current tax charge</b>	-	-
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(486)	(2,361)
Deferred tax write back following tax rate change	(129)	(98)
<b>Total deferred tax credit</b>	(615)	(2,459)
<b>Tax</b>	<b>(615)</b>	<b>(2,459)</b>

#### b) Tax recognised directly in equity

	2017 £'000	2016 £'000
Deferred tax credit/(charge) relating to cash flow hedges	3,485	(3,410)

#### c) Reconciliation of effective tax rate

The tax charge for the year is lower (2016: lower) than the charge that would have been calculated using the blended rate of corporation tax in the UK (19.75%) applied to loss before tax. The applicable or substantively enacted effective rate of UK corporation tax for the year was 19.75% (2016: 20%). The differences are explained below:

	2017 £'000	2016 £'000
Loss before tax	(17,524)	(29,980)
Loss before tax multiplied by blended rate of corporation tax in the UK of 19.75% (2016: 20%)	(3,461)	(5,996)
Effects of:		
Deferred tax write back following tax rate change	(129)	(98)
Group relief surrendered for £nil consideration	2,975	3,635
<b>Tax</b>	<b>(615)</b>	<b>(2,459)</b>

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

## Notes to the financial statements (continued)

### 5. Investment in subsidiaries

	2017 £'000	2016 £'000
<b>Cost and net book value</b>		
<b>At 30 June 2016 and 2017</b>	<b>225,825</b>	<b>225,825</b>

The investment in subsidiaries shown above represents the cost of the shares of the wholly-owned subsidiary undertakings less provisions made for any impairment in value.

Details of the investments of the Company are as follows:

Name	Country of incorporation	Description and proportion of shares held (%)
<b>Direct holdings</b>		
Sky Holdings Limited	UK	600 ordinary shares of £1 each (100%)
<b>Indirect holdings</b>		
365 Media Group Limited	UK	172 ordinary shares of £0.01 each (100%)

### 6. Deferred tax liability

	Financial instruments temporary differences £'000
At 1 July 2015	5,558
Credit to income	(2,361)
Charge to equity	3,654
Effect of change in tax rate	
- Income	(98)
- Equity	(244)
At 30 June 2016	6,509
Credit to income	(486)
Credit to equity	(3,481)
Effect of change in tax rate	
- Income	(129)
- Equity	(4)
<b>At 30 June 2017</b>	<b>2,409</b>

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: 20%).



## Notes to the financial statements (continued)

### 7. Trade and other receivables

	2017 £'000	2016 £'000
Amounts receivable from other Group companies	890,136	1,429,399
	<b>890,136</b>	<b>1,429,399</b>

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

#### Amounts receivable from other Group companies

Amounts due from other Group companies totalling £51,815,000 (2016: £608,416,000) represent receivables which are non-interest bearing and are repayable on demand.

On 29 June 2008, the Company entered into a loan agreement of £42,080,000 with Sky UK Limited whereby the Company was lender and Sky UK Limited was borrower. This is an interest-bearing loan incurring interest at a rate of twelve month LIBOR plus 0.75% and is repayable on demand. The amount outstanding on this loan (including interest) as at 30 June 2017 was £51,383,000 (2016: £50,752,000).

On 29 June 2008, the Company entered into a loan agreement of £43,578,000 with Sky UK Limited whereby the Company was lender and Sky UK Limited was borrower. At inception this loan was interest-bearing at a rate of 6.54% and is repayable on demand. As of 1 January 2009 this loan became non-interest-bearing. The amount outstanding on this loan (including interest) as at 30 June 2017 was £45,843,000 (2016: £45,843,000).

On 16 October 2009, the Company entered into a loan agreement of £610,700,000 with Sky UK Limited whereby the Company was lender and Sky UK Limited was borrower. This was an interest-bearing loan incurring interest at a rate of one month LIBOR plus 2.00% and is repayable on demand. The amount outstanding on this loan (including interest) as at 30 June 2017 was £741,095,000 (2016: £724,389,000).

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

### 8. Trade and other payables

	2017 £'000	2016 £'000
Amounts payable to other Group companies	46,439	570,881
Accruals	19,929	19,963
	<b>66,368</b>	<b>590,844</b>

The Directors consider that the carrying amount of trade and other payables approximates to their fair values.

Amounts payable to other Group companies totalling £46,439,000 (2016: £570,881,000) represent payables which are non-interest bearing and payable on demand.

## Notes to the financial statements (continued)

### 9. Borrowings

	2017	2016
	£'000	£'000
<b>Current borrowings</b>		
£400 million of 5.750% Guaranteed Notes repayable in October 2017 <sup>(i)</sup>	<b>398,258</b>	-
<b>Non-current borrowings</b>		
£400 million of 5.750% Guaranteed Notes repayable in October 2017 <sup>(i)</sup>	-	397,989
US\$350 million of 6.500% Guaranteed Notes repayable in October 2035 <sup>(i)</sup>	<b>265,441</b>	258,562
<b>Total non-current borrowings</b>	<b>265,441</b>	656,551

#### (i) Guaranteed notes

At 30 June 2016 and 30 June 2017, the Company had in issue the following publicly-traded Guaranteed Notes:

		Interest Rate Hedging		Hedged Interest Rates	
	Hedged value* £'000	Fixed £'000	Floating £'000	Fixed	Floating
£400 million of 5.750% Guaranteed Notes repayable in October 2017	400,000	350,000	50,000	5.750%	6m LIBOR - 0.229%
US\$350 million of 6.500% Guaranteed Notes repayable in October 2035	199,739	199,739	-	5.864%	N/A
	<b>599,739</b>	<b>549,739</b>	<b>50,000</b>		

Five (2016: five) other Group companies, Sky plc, Sky UK Limited, Sky Subscribers Services Limited, Sky Telecommunications Services Limited and Sky CP Limited have given joint and several guarantees in relation to the above mentioned notes.

\*Note: Hedged value is the final redemption value including any hedging.

## Notes to the financial statements (continued)

### 10. Derivatives and other financial instruments

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

	2017		2016	
	Asset		Asset	
	Fair value £'000	Notional £'000	Fair value £'000	Notional £'000
<b>Fair value hedges</b>				
Interest rate swaps	2,808	50,000	5,462	50,000
<b>Cash flow hedges</b>				
Cross-currency swaps	78,278	199,739	88,838	199,739
<b>Total</b>	<b>81,086</b>	<b>249,739</b>	<b>94,300</b>	<b>249,739</b>

The maturity of the derivative financial instruments is as follows:

	2017	2016
	Asset	Asset
	£'000	£'000
In one year or less	2,808	-
Between one and two years	-	5,462
Between two and five years	-	-
In more than five years	78,278	88,838
<b>Total</b>	<b>81,086</b>	<b>94,300</b>

The fair value of the Company's debt-related derivative portfolio at 30 June 2017 was a £81,086,000 net asset (2016: £94,300,000 net asset), with notional principal amounts totalling £249,739,000 (2016: £249,739,000). The fair value of the Company's derivative instruments designated as cash flow hedges at 30 June 2017 was an £78,278,000 net asset (2016: £88,838,000 net asset). The fair value of the Company's derivative instruments designated as fair value hedges at 30 June 2017 was a £2,808,000 net asset (2016: £5,462,000 net asset).

#### Hedge accounting classification and impact

The Company has designated its interest rate swaps as fair value hedges of interest rate risk, representing 20% (June 2016: 20%) of the Company's debt derivative portfolio. Movements in the fair value of the hedged items are taken to the Income Statement and are offset by movements in the fair value of the hedging instruments to the extent that hedge accounting is achieved.

The Company has designated its fixed rate cross-currency swaps as cash flow hedges of 80% (2016: 80%) of the Company's debt derivative portfolio. As such, the effective portion of the gain or loss on these contracts is reported as a separate component of the hedging reserve, and is then reclassified to the Income Statement in the same periods that the forecast transactions affect the Income Statement. During the current year, losses of £6,764,000

## Notes to the financial statements (continued)

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

#### Hedge accounting classification and impact (continued)

were removed from the hedging reserve and debited to finance costs in the Income Statement to offset the currency translation movements in the underlying hedged debt (2016: losses of £47,241,000).

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. £19,000 of ineffectiveness was recognised in the Income Statement during the current year (2016: £65,000).

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).

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

The Company's principal financial instruments comprise quoted bond debt. The Company has various financial assets such as intercompany trade and other receivables and derivative financial assets.

The accounting classification of each class of the Company's financial assets and financial liabilities is as follows:

	<b>Derivatives deemed held for trading</b>	<b>Derivatives in hedging relationships</b>	<b>Loans and receivables</b>	<b>Other liabilities</b>	<b>Total carrying value</b>	<b>Total fair value</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>At 30 June 2017</b>						
Quoted bond debt	-	-	-	(663,699)	(663,699)	(740,571)
Derivative financial instruments	-	81,086	-	-	81,086	81,086
Trade and other payables	-	-	-	(46,439)	(46,439)	(46,439)
Trade and other receivables	-	-	890,136	-	890,136	890,136
<b>At 30 June 2016</b>						
Quoted bond debt	-	-	-	(656,551)	(656,551)	(743,551)
Derivative financial instruments	-	94,300	-	-	94,300	94,300
Trade and other payables	-	-	-	(570,881)	(570,881)	(570,881)
Trade and other receivables	-	-	1,429,399	-	1,429,399	1,429,399

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; and

## Notes to the financial statements (continued)

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

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

- Interest rate and cross currency swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

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.

#### (b) Fair value hierarchy

All of the Company's financial instruments which are held at fair value are classified as Level 2 assets (2016: all) with the exception of the quoted bond debt which is level 1 in the fair value hierarchy. The fair value hierarchy reflects the degree to which observable inputs are used in determining their fair values:

##### Level 1

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

##### Level 2

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

##### Level 3

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

### 11. Financial risk management objectives and policies

#### Treasury activity

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 annually 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.

#### Interest rate risk

The Company does not have any material interest rate exposure. Debt proceeds are loaned on to other Sky Group (the "Group") companies at terms linked to the hedged cost of the underlying debt instrument, thereby offsetting the interest rate risk that the Company would otherwise be subject to. Debt is issued in the form of fixed rate notes and interest rate swap agreements are used to adjust the fixed versus floating mix. At 30 June 2017, 92% of borrowings are held at fixed rates after hedging (2016: 92%).

## Notes to the financial statements (continued)

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

#### Interest rate risk (continued)

The Company uses derivatives to convert all of its US dollar-denominated debt and associated interest rate obligation to pound sterling (see section on foreign exchange risk for further detail). At 30 June 2017, the Company had no net US dollar denominated interest rate exposure on its borrowings.

#### Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for derivative and 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.

For each one-hundred basis point rise or fall in interest rates at 30 June 2017, and if all other variables were held constant:

- the Company's loss for the year ended 30 June 2017 would increase or decrease by £1 million (2016: increase or decrease by £1 million); and
- other equity reserves would increase or decrease by £4 million (2016: increase or decrease by £7 million), arising from movements in cash flow hedges.

A one hundred basis point increase or decrease represents a large but realistic movement which can be easily multiplied to give sensitivities at different interest rates.

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

#### Foreign exchange risk

A combination of cross-currency and interest rate swap arrangements is used to convert the Company's US dollar denominated debt and associated interest rate obligations to pounds sterling at fixed exchange rates. At 30 June 2017, the split of the Company's aggregate borrowings into their core currencies was US dollar 40% and pounds sterling 60% (2016: US dollar 39% and pounds sterling 61%). At 30 June 2017, 100% of the Company's long-term borrowings, after the impact of derivatives, are denominated in pounds sterling.

#### Foreign exchange sensitivity

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

- A 25% strengthening in pounds sterling against the US dollar would have an adverse impact on profit of £nil million (2016: impact of £nil million). The same strengthening would have an adverse impact on other equity of £31 million (2016: adverse impact of £41 million).
- A 25% weakening in pounds sterling against the US dollar would have a beneficial impact on profit of £nil million (2016: impact of £nil million). The same weakening would have a beneficial impact on other equity of £52 million (2016: beneficial impact of £69 million).

## Notes to the financial statements (continued)

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

#### Foreign exchange sensitivity (continued)

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

#### Credit risk

The Company is exposed to default risk amounting to 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 Group's Treasury policy (in which the Company plays a key role), which is monitored and reported on regularly. The Group 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 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 & Poor's.

The Company's maximum exposure to credit risk on trade receivables is the carrying amounts disclosed in note 7.

#### Liquidity risk

The Company's principal source of liquidity is cash from intercompany loan agreements, combined with access to a £1 billion RCF, which expires in November 2021. At 30 June 2017, this facility was undrawn (30 June 2016: undrawn).

The Company's financial liabilities are shown in notes 8 and 9.

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

## Notes to the financial statements (continued)

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

#### Liquidity risk (continued)

	Less than 12 months £'000	Between one and two years £'000	Between two and five years £'000	More than five years £'000
<b>At 1 July 2017</b>				
<b>Non-derivative financial liabilities</b>				
Bonds – USD	17,527	17,527	52,581	506,260
Bonds – GBP	423,000	-	-	-
Trade and other payables	46,439	-	-	-
<b>Net settled derivatives</b>				
Financial assets	(2,812)	-	-	-
<b>Gross settled derivatives</b>				
Outflow	11,713	11,713	35,138	357,861
Inflow	(17,527)	(17,527)	(52,580)	(506,260)
<b>At 30 June 2016</b>				
<b>Non-derivative financial liabilities</b>				
Bonds – USD	17,087	17,087	51,261	510,647
Bonds – GBP	23,000	423,000	-	-
Trade and other payables	570,881	-	-	-
<b>Net settled derivatives</b>				
Financial assets	(2,618)	(2,618)	-	-
<b>Gross settled derivatives</b>				
Outflow	15,037	15,037	45,111	474,852
Inflow	(17,087)	(17,087)	(51,261)	(581,437)

#### 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.

### 12. Share capital

	2017 £'000	2016 £'000
<b>Allotted, called-up and fully paid</b>		
50,000 (2016: 50,000) ordinary shares of £1 each	50	50

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 (continued)

### 13. Shareholders' equity

	2017	2016
	£'000	£'000
Share capital	50	50
Hedging reserve	5,671	19,811
Retained earnings	458,850	475,759
	<b>464,571</b>	<b>495,620</b>

#### 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.

### 14. Contracted commitments, contingencies and guarantees

The Company, together with Sky UK Limited, Sky Subscribers Services Limited, Sky Telecommunications Services Limited and Sky CP Limited ("guarantors"), have given joint and several guarantees in relation to the £1 billion RCF and outstanding guaranteed notes held by its parent undertaking, Sky plc.

### 15. Transactions with related parties and major shareholders

#### a) Key management

The Company has a related party relationship with the Directors of the Company. At 30 June 2017, there were 2 (2016: 2) members of key management, both of whom were Directors of the Company. The Directors received £nil remuneration in respect of their services to the Company (2016: £nil).

#### b) Transactions with other Group companies

The Company conducts business transactions with other Group companies. In particular, it is normal practice for the Company to lend and borrow amounts to and from subsidiaries and other Group companies as required. For details of amounts owed by and to other Group companies, see notes 7 and 8. For details of interest earned on amounts owed by other Group companies, see note 2.

### 16. Ultimate parent undertaking

The Company is a wholly-owned subsidiary undertaking of Sky plc ("Sky"), a Company incorporated and registered in England and Wales. The Company operates together with Sky's other subsidiaries, as a part of the Group. The only group in which the results of the Company are consolidated is that headed by Sky.

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.

### 17. Post Balance Sheet Event

On 20 October 2017, the Company repaid in full £400 million of 5.750% Guaranteed Notes.