SKY SUBSCRIBERS SERVICES LIMITED

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

Registered number: 02340150

Directors and Officers

For the year ended 30 June 2017

Directors

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

A J Griffith
C J Taylor
D E C Allan (appointed 28 September 2016)

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

The Company's principal activities are to provide support services (including conditional access, which is the technical process of ensuring encryption of our broadcasted channels, and subscriber management services) and to act as an agent for the direct-to-home ("DTH") pay TV, broadband, telephony and mobile business of its parent company Sky UK Limited. The Company also operates the Irish branch of the Group, operating pay television, broadband and telephony services in Ireland.

The audited financial statements for the period are set out on pages 9 to 46. The profit after tax for the year was £49,386,000 (2016: £56,624,000). The Company's shareholder's equity is £551,515,000 which is higher than at the prior period end (2016: £499,845,000) and is primarily due to profit for year, hedging reserves movement and share options movement.

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 principal risks facing the Company are liquidity risk, credit risk and interest rate risk which is mainly associated with intercompany balances. The intercompany balances of the Company are detailed in notes 13 and 14.

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

Financial risk management objectives and policies

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

Credit risk

The Company's principal assets are intercompany balances. The Company's credit risk is primarily attributable to these balances. The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers, other than amounts payable to and receivable from other Group companies.

Liquidity risk

The Company relies on the Group Treasury function to manage its liquidity and ensure that sufficient funds are available for ongoing operations and future developments. The 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.

Foreign exchange risk

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

Employment policies

Organisation

Over the 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 9,673 (2016: 8,592).

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, ROI and Italy. We achieved record levels of participation in the survey (82% in the UK and ROI and 79% in Italy) and we continue to achieve high levels of engagement, outperforming external benchmarks by 8% in the UK and ROI and 13% in Italy. In July 2017 the survey was extended to the whole Sky Group which will allow us to consistently gather feedback from all five territories we operate in.

On Behalf of the Board,

C J Taylor
Director

Grant Way
Isleworth
Middlesex
TW7 5QD
30 October 2017

Directors' Report

The Directors who served during the year are shown on page 1. The Directors do not recommend the payment of a dividend for the 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

The Company's business activities, together with the factors likely to affect its future development and performance are set out in the Business Review. The Strategic Report details the financial position of the Company, as well as the Company's objectives and policies, and details of its exposures to credit risk and liquidity 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 they ought to have taken as a Director to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information.

Deloitte LLP have expressed their willingness to continue as auditor and a resolution to reappoint them was approved by the Board of Directors on 30 October 2017.

On Behalf 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 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 Subscribers Services 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 Subscribers Services 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 24.

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.

Auditor's report (continued)

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

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, 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. 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.

Auditor's report (continued)

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

30 October 2017

Income Statement

For the year ended 30 June 2017

	Notes	**30 June 2017**	30 June 2016
		£'000	£'000
Revenue	2	**924,963**	893,402
Operating expense	3	**(855,248)**	(810,493)
Operating profit		**69,715**	82,909
Investment income	4	**1,100**	1,078
Finance costs	4	**(7,239)**	(11,319)
Profit before tax	5	**63,576**	72,668
Tax	7	**(14,190)**	(16,044)
Profit for the year attributable to equity shareholder		**49,386**	56,624

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

	30 June 17 £'000	30 June 16 £'000
Profit for the year attributable to equity shareholder	**49,386**	56,624
Other comprehensive income		
Amounts recognised directly in equity that may subsequently be recycled to the income statement		
Exchange differences on translation of foreign operations	**-**	2
Loss on cash flow hedges (see note 17)	**(6,318)**	(45,984)
Tax on cash flow hedges (see note 7)	**790**	6,474
	(5,528)	(39,508)
Amounts reclassified and reported in the income statement		
Loss/(Gain) on cash flow hedges (see note 17)	**1,495**	(11,681)
Tax (charge)/credit on cash flow hedges (see note 7)	**(187)**	1,460
	1,308	(10,221)
Other comprehensive loss for the year (net of tax)	**(4,220)**	(49,729)
Total comprehensive gain for the year attributable to equity shareholder	**45,166**	6,895

All results relate to continuing operations.

Balance Sheet

As at 30 June 2017

	Notes	30 June 2017	30 June 2016
		£'000	£'000
Non-current assets			
Intangible assets	8	**181,881**	168,532
Property, plant and equipment	9	**32,129**	37,382
Investment in subsidiaries	10	**11,196**	11,196
Deferred tax assets	11	**6,814**	5,873
Derivative financial assets	17	**-**	3,422
		232,020	226,405
Current assets			
Inventories	12	**1,705**	3,225
Trade and other receivables	13	**550,154**	752,055
Cash and cash equivalents		**9,821**	11,527
Derivative financial assets	17	**-**	3,903
		561,680	770,710
Total assets		**793,700**	997,115
Current liabilities			
Borrowings	16	**1,663**	1,663
Trade and other payables	14	**223,506**	483,948
Provisions	15	**1,984**	1,821
Derivative financial liabilities	17	**3,544**	612
		230,697	488,044
Non-current liabilities			
Borrowings	16	**3,823**	5,003
Trade and other payables	14	**5,283**	4,112
Derivative financial liabilities	17	**2,382**	111
		11,488	9,226
Total liabilities		**242,185**	497,270
Share capital	19	**-**	-
Share premium	19	**149,802**	149,802
Reserves		**401,713**	350,043
Total equity attributable to equity shareholder		**551,515**	499,845
Total liabilities and shareholder's equity		**793,700**	997,115

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

These financial statements of Sky Subscribers Services Limited, registered number 02340150, 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

Cash Flow Statement

For the year ended 30 June 2017

	Note	30 June 2017 £'000	30 June 2016 £'000
Cash flows from operating activities			
Cash generated from operations	20	**41,283**	59,156
Net cash from operating activities		**41,283**	59,156
Cash flows from investing activities			
Dividends received	4	**1,100**	1,078
Purchase of property, plant and equipment		**(2,775)**	(8,782)
Purchase of intangible assets	8	**(32,897)**	(36,933)
Net cash used in investing activities		**(34,572)**	(44,637)
Cash flows from financing activities			
Repayment of obligations under finance leases		**(1,178)**	(994)
Interest paid		**(7,239)**	(11,319)
Net cash used in financing activities		**(8,417)**	(12,313)
Net (decrease)/increase in cash and cash equivalents		**(1,706)**	2,206
Cash and cash equivalents at the beginning of the year		**11,527**	9,321
Cash and cash equivalents at the end of the year		**9,821**	11,527

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

All results relate to continuing operations.

Statement of Changes in Equity

For the year ended 30 June 2017

	Share capital	Share premium	Hedging reserve	Retained earnings	Total shareholder's equity
	£'000	£'000	£'000	£'000	£'000
At 1 July 2015	**-**	**149,802**	**45,333**	**293,918**	**489,053**
Profit for the year	-	-	-	56,624	56,624
Exchange differences on translation of foreign operations	-	-	-	2	2
Recognition and transfer of cash flow hedges	-	-	(57,663)	-	(57,663)
Tax on items taken directly to equity	-	-	7,208	724	7,932
Total comprehensive income for the year	**-**	**-**	**(50,455)**	**57,350**	**6,895**
Share-based payment	-	-	-	4,941	4,941
Tax on items taken directly to equity	-	-	-	(1,044)	(1,044)
At 30 June 2016	**-**	**149,802**	**(5,122)**	**355,165**	**499,845**
Profit for the year	-	-	-	49,386	49,386
Recognition and transfer of cash flow hedges	-	-	(4,823)	-	(4,823)
Tax on items taken directly to equity	-	-	603	-	603
Total comprehensive income for the year	**-**	**-**	**(4,220)**	**49,386**	**45,166**
Share-based payment	-	-	-	6,186	6,186
Tax on items taken directly to equity	-	-	-	318	318
At 30 June 2017	**-**	**149,802**	**(9,342)**	**411,055**	**551,515**

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

Notes to the financial statements

1. Accounting policies

Sky Subscribers Services 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 basis (as set out in the Strategic and Directors' Report) and on a historical cost basis, except for the remeasurement to fair value of certain financial assets and liabilities as described in the accounting policies below. The Company has adopted the new accounting pronouncements which became effective this period, none of which had a 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 which prepares consolidated financial statements which are publicly available (see note 24).

c) 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 at the exchange rate prevailing at the date of the initial transaction. Gains and losses on retranslation of assets and liabilities are included net in the profit or loss for the year.

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.

d) 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 probable 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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

d) Intangible assets (continued)

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:

Trademarks	5 to 25 years straight-line over licence period, as applicable
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 i below.

e) Property, plant and equipment ("PPE")

Owned PPE is stated at cost, net of accumulated depreciation and any impairment losses, (see accounting policy i). 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 (see accounting policy m).

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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

f) Derivative financial instruments and hedging activities

The Company uses derivative financial instruments to hedge its exposure to fluctuations in foreign exchange rates.

Derivatives are held at fair value from the date on which a derivative contract is entered into. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under IFRS 13 "Fair Value Measurement". The Company calculates a separate credit valuation adjustment ('CVA') or debit valuation adjustment ('DVA') for each derivative based upon the net position for each counterparty relationship. The Company calculates the CVA where it has a net asset position using a quoted credit default swap curve for the counterparty and calculates the DVA where it has a net liability position using an industry proxy credit default swap curve for the Company. The fair value of derivative financial instruments is calculated by discounting future cash flows with reference to the benchmark Libor curve, adjusted by the relevant credit default swap curve.

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, and are subject to cash flow hedge accounting. Certain other derivatives held by the Company do not meet the qualifying criteria for recognition for accounting purposes as hedges; despite this being their economic function. Changes in the fair values of these derivatives are recognised immediately in the income statement. The Company does not hold or issue derivatives for speculative purposes.

i. Derivatives that qualify for cash flow hedge accounting

Changes in the fair values of derivatives that are designated as cash flow hedges ("cash flow hedging instruments") are initially recognised in the hedging reserve. Amounts accumulated in the hedging reserve are subsequently recognised in the 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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

g) Inventories

Raw materials, consumables and goods held for resale are valued at the lower of cost and net realisable value ("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.

h) 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. 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 included as a component of cash and cash equivalents.

iii. Trade and other payables

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

iv. 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.

v. 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 (continued)

1. Accounting policies (continued)

i) Impairment

At each balance sheet date, in accordance with IAS 36 "Impairment of Assets", the Company reviews the carrying amounts of all its assets excluding inventories (see accounting policy g), financial assets (see accounting policy h) and deferred tax (see accounting policy n) 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 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.

j) 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.

k) 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 derived from intercompany revenue earned from the provision of call centre services to other Group companies and from Irish customers.

l) 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.

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.

1. Accounting policies (continued)

l) Employee benefits (continued)

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. 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.

m) 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.

n) 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. 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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

n) Tax, including deferred tax (continued)

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.

o) Distributions to equity shareholders

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

p) 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.

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

Notes to the financial statements (continued)

1. Accounting policies (continued)

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

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
- 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

Notes to the financial statements (continued)

1. Accounting policies (continued)

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

- 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.

  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 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

1. Accounting policies (continued)

q) 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) 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.

– Judgement is also required in evaluating the likelihood of collection of customer debt after revenue has been recognised. This evaluation requires estimates to be made, including the level of provision to be made for amounts with uncertain recovery profiles. Provisions are based on historical trends in the percentage of debts which are not recovered or on more detailed reviews of individually significant balances.

(ii) Tax, including deferred tax (see notes 7 and 11)

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

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

Notes to the financial statements (continued)

1. Accounting policies (continued)

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

(ii) Tax, including deferred tax (see notes 7 and 11) ***(continued)***

– 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 8 and 9)

– 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. This assessment requires estimation of the period over which the Company will benefit from the assets.

– 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.

2. Revenue

	30 June 2017 £'000	30 June 2016 £'000
Group support services revenue	**527,432**	548,262
Irish branch revenue	**397,531**	345,140
	924,963	893,402

Group support services revenue is generated from intercompany recharges for the provision of core management and call handling services to the rest of the Sky Group (the "Group"). Irish branch revenue relates to revenue from direct-to-home ("DTH") pay television, broadband and telephony subscriptions in Ireland. All revenue arises from services provided in the UK and Ireland.

3. Operating expense

	30 June 2017 £'000	30 June 2016 £'000
Programming	**148,106**	131,100
Sales, general and administration	**707,142**	679,393
	855,248	810,493

4. Investment income and finance costs

	30 June 2017 £'000	30 June 2016 £'000
Investment income		
Distribution receivable(i)	**1,100**	1,078
Finance costs		
Finance lease interest(ii)	**(123)**	(159)
Remeasurement of derivative financial instruments not qualifying for hedge accounting	**(7,116)**	(11,160)
	(7,239)	(11,319)

(i) During the year, the Company received a distribution of £1,100,000 (2016: £1,078,000) from its investment in Athena Court Property Unit Trust (see note 10).

(ii) Finance lease interest is payable on financing arrangements in connection with a building in Dunfermline which bears interest at a rate of 8.5% (see note 16). The present value of the finance lease liability is £5,486,000 (2016: £6,666,000) (see note 16).

5. Profit before tax

Profit before tax is stated after charging:

	30 June 2017 £'000	30 June 2016 £'000
Cost of inventories recognised as an expense	**205**	462
Depreciation and impairment of property, plant and equipment	**7,185**	8,662
Amortisation and impairment of intangible assets	**19,548**	21,409
Rentals on operating leases and similar arrangements	**6,187**	8,147

Foreign exchange

Foreign exchange losses recognised in the Income Statement during the year amounted to £7,103,000 (2016: loss of £11,155,000).

Audit fees

Amounts paid to the auditor for the audit of the Company's financial statements of £15,000 (2016: £15,000) were borne by another Group subsidiary in 2017 and 2016. No amounts for other services have been paid to the auditor.

6. Employee benefits and key management compensation

a) Company employee benefits

	30 June 2017 £'000	30 June 2016 £'000
Wages and salaries	**270,201**	238,140
Social security costs	**22,942**	20,504
Costs of employee share option schemes(i)	**6,186**	4,941
Contributions to the Sky plc pension scheme ("the Pension Plan")(ii)	**12,713**	9,577
	312,042	273,162

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

(ii) Sky plc ("Sky") operates defined contribution pension schemes. The pension charge for the year represents the cost of contributions payable by the Company to the schemes during the year. The amount payable to the schemes at 30 June 2017 was £1,391,000 (2016: £1,286,000).

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

	30 June 2017	30 June 2016
Customer service, sales and marketing	**8,557**	7,521
Transmission and technology	**-**	480
Management and administration	**986**	455
Channels and services	**130**	136
	9,673	8,592

b) Key management compensation

The Directors did not receive any remuneration during the year (2016: £nil) in respect of their services to the Company, including in relation to the cost of employee share option schemes.

Notes to the financial statements (continued)

7. Tax

a) Tax recognised in the Income Statement

	30 June 2017 £'000	30 June 2016 £'000
Current tax expense		
Current year	**14,803**	16,912
Adjustments in respect of prior years	**(452)**	(1,356)
Total current tax	**14,351**	15,556
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	**(649)**	93
Adjustment in respect of prior years	**488**	395
Total deferred tax	**(161)**	488
Tax	**14,190**	16,044

b) Tax recognised directly in equity

	30 June 2017 £'000	30 June 2016 £'000
Current tax credit relating to share-based payments	**141**	724
Deferred tax credit (charge) relating to share-based payments	**177**	(1,044)
Deferred tax credit relating to cash flow hedges	**603**	7,208
	921	6,888

c) Reconciliation of effective tax rate

The tax expense for the year is higher (2016: higher) than the expense that would have been charged using the blended rate of corporation tax in the UK 19.75% (2016: 20%) applied to profit before tax. The applicable or substantively enacted rate of UK corporation tax for the period was 19.75% (2016: 20%). The differences are explained below:

	30 June 2017 £'000	30 June 2016 £'000
Profit before tax	**63,576**	72,668
Profit before tax multiplied by blended rate of corporation tax in the UK of 19.75% (2016: 20%)	**12,556**	14,534
Effects of:		
Non-deductible expense	**2,908**	3,697
Non-taxable income	**(221)**	(74)
Net (decrease) increase in respect of share-based payments	**(180)**	297
Change in corporation tax rate	**361**	219
Effect of branch exemption	**(1,270)**	(1,666)
Adjustments in respect of prior years	**36**	(963)
Tax	**14,190**	16,044

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

Notes to the financial statements (continued)

8. Intangible assets

	Internally generated intangible assets £'000	Software development (external) £'000	Software licences £'000	Other intangible assets £'000	Internally generated assets not yet available for use £'000	Acquired intangible assets not yet available for use £'000	Total £'000
Cost							
At 1 July 2015	68,195	132,150	23,719	3,817	204	81,987	310,072
Additions	14,840	1,254	857	1,115	1,550	17,317	36,933
Disposals	(1,491)	(668)	(1,117)	-	-	-	(3,276)
Transfers	31	101	-	-	(31)	(101)	-
At 30 June 2016	**81,575**	**132,837**	**23,459**	**4,932**	**1,723**	**99,203**	**343,729**
Additions	9,021	1,462	2,373	409	-	19,632	32,897
Disposals	(181)	(50)	(1,000)	-	-	-	(1,231)
Transfers	68	48	-	8	(76)	(48)	-
At 30 June 2017	**90,483**	**134,297**	**24,832**	**5,349**	**1,647**	**118,787**	**375,395**
Amortisation							
At 1 July 2015	31,538	103,479	20,730	1,317	-	-	157,064
Amortisation	12,761	6,236	1,261	1,149	-	-	21,407
Impairment	2	-	-	-	-	-	2
Disposals	(1,491)	(668)	(1,117)	-	-	-	(3,276)
At 30 June 2016	**42,810**	**109,047**	**20,874**	**2,466**	**-**	**-**	**175,197**
Amortisation	11,683	6,183	889	793	-	-	19,548
Disposals	(181)	(50)	(1,000)	-	-	-	(1,231)
At 30 June 2017	**54,312**	**115,180**	**20,763**	**3,259**	**-**	**-**	**193,514**
Carrying amounts							
At 30 June 2015	36,657	28,671	2,989	2,500	204	81,987	153,008
At 30 June 2016	38,765	23,790	2,585	2,466	1,723	99,203	168,532
At 30 June 2017	**36,171**	**19,117**	**4,069**	**2,090**	**1,647**	**118,787**	**181,881**

The Company's internally generated intangible assets relate to software development associated with our customer management system. The Company's other intangible assets mainly include copyright licences, customer lists and relationships.

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

	2018 £'000	2019 £'000	2020 £'000	2021 £'000	2022 £'000
Estimated amortisation charge	18,513	15,644	12,462	8,242	2,346

Notes to the financial statements (continued)

9. Property, plant and equipment

	Freehold land and buildings(i) £'000	Leasehold improvements £'000	Equipment, furniture and fixtures £'000	Assets not yet available for use £'000	Total £'000
Cost					
At 1 July 2015	19,270	388	30,839	222	50,719
Additions	1,519	279	7,218	782	9,798
Disposals	-	-	(2,827)	-	(2,827)
Transfers	(23)	-	(68)	91	-
At 30 June 2016	**20,766**	**667**	**35,162**	**1,095**	**57,690**
Additions	700	34	1,198	-	1,932
Disposals	-	(76)	(2,245)	-	(2,321)
Transfers	13	-	25	(38)	-
At 30 June 2017	**21,479**	**625**	**34,140**	**1,057**	**57,301**
Accumulated Depreciation					
At 1 July 2015	11,986	102	2,382	-	14,470
Depreciation	752	47	7,855	-	8,654
Impairment	-	-	8	-	8
Disposals	-	-	(2,824)	-	(2,824)
At 30 June 2016	**12,738**	**149**	**7,421**	**-**	**20,308**
Depreciation	783	47	6,331	-	7,161
Impairment	-	24	-	-	24
Disposals	-	(76)	(2,245)	-	(2,321)
At 30 June 2017	**13,521**	**144**	**11,507**	**-**	**25,172**
Carrying amounts					
At 30 June 2015	7,284	286	28,457	222	36,249
At 30 June 2016	8,028	518	27,741	1,095	37,382
At 30 June 2017	**7,958**	**481**	**22,633**	**1,057**	**32,129**

(i) Depreciation was not charged on £634,000 of land (2016: £634,000).

The amounts shown include assets held under finance leases with a net book value of £1,144,000 (2016: £1,488,000). The cost of these assets was £8,610,000 (2016: £8,610,000) and the accumulated depreciation was £7,466,000 (2016: £7,122,000). Depreciation charged during the year on such assets was £344,000 (2016: £345,000).

Notes to the financial statements (continued)

10. Investment in subsidiaries

Details of the investments of the Company are as follows:

Name	Address	Country of incorporation	Description and proportion of shares held (%)
Direct holdings			
Athena Court Property Unit Trust	26 New Street Helier Jersey, JE2 3RA	UK	95.02% of total units
Sky Ireland Limited	Fifth floor, 1 Burlington Plaza, Burlington Road, Dublin 4	Republic of Ireland	1 ordinary share of €1 (100%)

Investments in subsidiaries shown above represent the cost of the shares of the wholly-owned subsidiary undertakings plus non-current loans advanced, less provisions made for any impairment in value.

On 8 September 2008, the entire unit holdings in Athena Court Property Unit Trust ("Trust") were acquired by the Group. The Company acquired 230,737 units, representing 95.02% of the total units in the Trust for £23,169,392.

The remaining 4.98% of the total units in the Trust are held by another Group company.

In 2009 an impairment review was conducted and the value of the asset was reduced to £11,196,000. In the current and prior periods, the carrying value of the property and the Company's investment in the Trust were reviewed for impairment, and no impairments were recorded.

11. Deferred tax

Recognised deferred tax assets

	Accelerated tax depreciation £'000	Short-term temporary differences £'000	Share-based payments temporary differences £'000	Financial instruments temporary differences £'000	Total £'000
At 1 July 2015	3,567	177	2,930	(6,478)	196
Credit (charge) to income	330	188	(1,005)	-	(487)
(Charge) credit to equity	-	-	(1,044)	7,208	6,164
At 30 June 2016	**3,897**	**365**	**881**	**730**	**5,873**
Credit (charge) to income	(315)	(109)	585	-	161
Credit to equity	-	-	177	603	780
At 30 June 2017	**3,582**	**256**	**1,643**	**1,333**	**6,814**

Deferred tax asset split:

	30 June 2017 £'000	30 June 2016 £'000
Gross deferred tax assets	**6,814**	5,873
Net deferred tax asset	**6,814**	5,873

Deferred tax assets have been recognised at 30 June 2017 and 30 June 2016 on the basis that management deems it probable that there will be suitable taxable profits against which these assets can be utilised.

Notes to the financial statements (continued)

11. Deferred tax (continued)

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: 19%).

12. Inventories

	30 June 2017	30 June 2016
	£'000	£'000
Raw materials and consumables	**1,705**	3,225

13. Trade and other receivables

	30 June 2017	30 June 2016
	£'000	£'000
Gross trade receivables	**10,175**	9,218
Less: provision for impairment of receivables	**(4,349)**	(3,328)
Net trade receivables	**5,826**	5,890
Amounts receivable from the parent company	**422,986**	222,161
Amounts receivable from other Group companies	**109,914**	512,505
Amounts owed by other related parties	**316**	3
Prepayments	**10,631**	10,937
Accrued income	**450**	452
Other receivables	**31**	107
Current trade and other receivables	**550,154**	752,055

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

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

	30 June 2017	30 June 2016
	£'000	£'000
Up to 30 days past due date	**1,914**	1,299
30 to 60 days past due date	**-**	117
60 to 90 days past due date	**-**	59
90 to 120 days past due date	**56**	27
More than 120 days past due date	**357**	345
	2,327	1,847

13. Trade and other receivables (continued)

Provision for doubtful debts

	30 June 2017	30 June 2016
	£'000	£'000
Balance at beginning of year	**3,328**	1,897
Amounts utilised	**-**	-
Income Statement charge (credit)	**1,021**	1,431
Balance at end of year	**4,349**	3,328

Trade receivables principally comprise amounts outstanding from customers. The Directors consider that the carrying amount of trade and other receivables approximates their fair values.

Amounts receivable from immediate parent company

Amounts due from immediate parent company Sky UK Limited totalling £422,986,000 (2016: £222,161,000) represent trade receivables; they are non-interest bearing and are repayable on demand.

Amounts receivable from other Group companies

There are amounts due from other Group companies totalling £64,810,000 (2016: £467,401,000) that are trade receivables; these balances are non-interest bearing and are repayable on demand. The remaining balance of £45,104,000 (2016: £45,104,000) is intercompany loans (see below).

The Company is owed £45,104,000 (2016: £45,104,000) of non-interest bearing loan receivable from Sky Operational Finance Limited which is repayable on demand.

The Company is exposed to credit risk on its trade and other receivables. However, the Company does not have any significant concentrations of credit risk with third parties, as the majority of its receivables are from other Group companies. No allowances have been recorded against amounts receivable from other Group companies as they have been assessed to be fully recoverable.

14. Trade and other payables

	30 June 2017	30 June 2016
	£'000	£'000
Trade payables	**39,228**	34,934
Amounts owed to other Group companies	**79,454**	330,050
VAT	**1,841**	13,491
Social security and PAYE	**5,689**	5,249
Other payables	**2,099**	1,422
Accruals	**73,296**	78,730
Deferred income	**21,899**	20,072
Current trade and other payables	**223,506**	483,948
Non-current other payables	**5,283**	4,112
Total trade and other payables	**228,789**	488,060

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

Amounts due to other Group companies represent trade payables; they are repayable on demand and are non-interest bearing.

Notes to the financial statements (continued)

15. Provisions

	At 30 June 2015	Provided during the year	Released during the year	Utilised during the year	**At 30 June 2016**	**Provided during the year**	**Released during the year**	**Utilised during the year**	**At 30 June 2017**
	£'000	£'000	£'000	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Current liabilities									
Restructuring provision(i)	1,874	186	-	(1,746)	**314**	**1,028**	**-**	**(314)**	**1,028**
Other provision(ii)	930	1,130	(47)	(506)	**1,507**	**843**	**(584)**	**(810)**	**956**
	2,804	1,316	(47)	(2,252)	**1,821**	**1,871**	**(584)**	**(1,124)**	**1,984**

(i) These provisions relate to costs incurred as part of corporate restructuring and efficiency programmes.

(ii) These provisions relate to amounts provided for legal disputes.

16. Borrowings

	30 June 2017	30 June 2016
	£'000	£'000
Current borrowings		
Obligations under finance leases	**1,663**	1,663
Non-current borrowings		
Obligations under finance leases	**3,823**	5,003

Finance leases

The minimum lease payments under finance leases fall due as follows:

	30 June 2017	30 June 2016
	£'000	£'000
Within one year	**1,663**	1,663
Between one and two years	**1,663**	1,663
Between two and three years	**1,663**	1,663
Between three and four years	**1,301**	1,663
Between four and five years	**-**	415
After five years	**-**	-
	6,290	7,067
Future finance charges on finance lease liabilities	**(804)**	(401)
Present value of finance lease liabilities	**5,486**	6,666

Financing arrangements are in connection with the building in Dunfermline. During the year, repayments of £1,654,000 (2016: £1,559,000) were made against the lease. A proportion of these payments have been allocated against the capital amount outstanding. The lease bears interest at a rate of 8.5% and expires in September 2020.

Notes to the financial statements (continued)

17. Derivatives and other financial instruments

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

	30 June 2017				30 June 2016			
	Asset		**Liabilities**		Asset		Liabilities	
	Fair value	**Notional**	**Fair value**	**Notional**	Fair value	Notional	Fair value	Notional
	£'000	**£'000**	**£'000**	**£'000**	£'000	£'000	£'000	£'000
Cash flow hedges:								
Forward exchange contracts	-	-	**(4,945)**	**137,861**	1,121	121,594	(286)	45,837
Derivatives not in a formal hedge relationship:								
Forward exchange contracts	-	-	**(981)**	**83,472**	6,204	192,101	(437)	32,670
Total	-	-	**(5,926)**	**221,333**	7,325	313,695	(723)	78,507

The maturity of the derivative financial instruments is as follows:

	30 June 2017		30 June 2016	
	Asset	**Liability**	Asset	Liability
	£'000	**£'000**	£'000	£'000
In one year or less	-	**(3,544)**	3,903	(612)
Between one and two years	-	**(2,382)**	2,735	(111)
Between two and five years	-	-	687	-
Total	-	**(5,926)**	7,325	(723)

The Company's portfolio of 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.

At 30 June 2017, the carrying value of financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss was £nil (2016: £nil).

17. Derivatives and other financial instruments (continued)

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.

Hedge accounting classification and impact

The Company designates its forward foreign exchange contracts as cash flow hedges of forecast foreign currency sales. Gains or losses are released from the hedging reserve and recycled to the income statement in the same period as the hedged item is recognised. 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 losses of £1,495,000 were removed from the hedging reserve and debited against revenue in the income statement (2016: gain of £11,681,000).

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. £nil of ineffectiveness was recognised in the income statement during the current year (2016: £244,000).

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, all falling within the permitted 80% to 125% effectiveness ratio (2016: there were a number of instances in which the hedge relationship was not highly effective).

Notes to the financial statements (continued)

17. 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:

	Derivatives financial instruments £'000	Loans and receivables £'000	Other liabilities £'000	Total carrying value £'000	Total fair values £'000
At 30 June 2017					
Derivative financial instruments	**(5,926)**	**-**	**-**	**(5,926)**	**(5,926)**
Trade and other payables	**-**	**-**	**(194,830)**	**(194,830)**	**(194,830)**
Obligations under finance leases	**-**	**-**	**(5,486)**	**(5,486)**	**(5,486)**
Trade and other receivables	**-**	**539,523**	**-**	**539,523**	**539,523**
Cash and cash equivalents	**-**	**9,821**	**-**	**9,821**	**9,821**
At 30 June 2016					
Derivative financial instruments	6,602	-	-	6,602	6,602
Trade and other payables	-	-	(445,777)	(445,777)	(445,777)
Obligations under finance leases	-	-	(6,666)	(6,666)	(6,666)
Trade and other receivables	-	741,119	-	741,119	741,119
Cash and cash equivalents	-	11,527	-	11,527	11,527

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; and
- 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 loans and receivables mainly comprise investments in AAA rated money market funds which can be withdrawn without notice.

Notes to the financial statements (continued)

17. 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 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
At 30 June 2017				
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	(5,926)	-	(5,926)	-
Total	**(5,926)**	**-**	**(5,926)**	**-**
At 30 June 2016				
Financial assets				
Financial assets at fair value through profit or loss				
Forward foreign exchange contracts	7,325	-	7,325	-
Total	**7,325**	**-**	**7,325**	**-**
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Forward foreign exchange contracts	(723)	-	(723)	-
Total	**(723)**	**-**	**(723)**	**-**

Level 1

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

Level 2

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

Level 3

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

Notes to the financial statements (continued)

18. 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 the Group's policies approved by its Board of Directors.

Credit risk

The Company's maximum exposure to credit risk on trade receivables is the carrying amounts disclosed in note 13.

Liquidity risk

The Company's financial liabilities are shown in notes 14, 15 and 16.

The following table analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows. The amounts disclosed may not reconcile to the amounts disclosed on the Balance Sheet for borrowings, derivative financial instruments, provisions and trade and other payables.

18. Financial risk management objectives and policies (continued)

	Less than 12 months £'000	Between one and two years £'000	Between two and five years £'000	More than five years £'000
At 30 June 2017				
Non-derivative financial liabilities				
Trade and other payables	**194,830**	**-**	**-**	**-**
Obligations under finance leases	**1,663**	**1,663**	**2,964**	**-**
Gross settled derivatives				
Outflow	**147,175**	**74,159**	**-**	**-**
Inflow	**(144,299)**	**(72,865)**	**-**	**-**
At 30 June 2016				
Non-derivative financial liabilities				
Trade and other payables	445,777	-	-	-
Obligations under finance leases	1,663	1,663	3,741	-
Gross settled derivatives				
Outflow	183,517	138,346	70,340	-
Inflow	(187,176)	(142,991)	(72,865)	-

Foreign exchange risk

At 30 June 2017, the Company had outstanding commitments to sell, in aggregate, €251,900,000 (2016: €470,600,000) at an average rate of €1.1600 (2016 €1.1663).

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 then reclassified into the income statement in the same periods that the forecast transaction affects the income statement.

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 Euro would have a beneficial impact on profit of £13,117,000 (2016: beneficial impact on profit of £41,747,000). The same move would have a beneficial impact on other equity of £27,572,000 (2016: beneficial impact on other equity of £33,486,000).

- A 25% weakening in pounds sterling against the Euro would have an adverse impact on profit of £21,862,000 (2016: adverse impact on profit of £69,578,000). The same move would have an adverse impact on other equity of £45,954,000 (2016: adverse impact on other equity of £55,810,000).

18. 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 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.

19. Share capital

	30 June 2017	30 June 2016
	£	£
Allotted, called-up and fully paid		
5 (2016: 5) ordinary shares of £1 (2016: £1) each	**5**	5

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

	30 June 2017	30 June 2016
	£' 000	£' 000
Share premium	**149,802**	149,802

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 Plc. The share awards outstanding can be summarised as follows:

Scheme	**30 June 2017 Number of ordinary shares**	30 June 2016 Number of ordinary shares
Sharesave Scheme options (i)	**2,867,466**	2,435,415
Management LTIP awards (ii)	**1,036,911**	889,240
Management Co-Investment LTIP awards (iii)	**108,174**	81,472
	4,012,551	3,406,127

Notes to the financial statements (continued)

19. Share capital (continued)

(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 Group. 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 across the Group. 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.

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 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".

(iii) 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 plc 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.

Employees who participate in the plan are granted a conditional award of shares based on the amount they have invested in Sky plc 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.

19. Share capital (continued)

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

	Sharesave Scheme		**Senior Management Schemes**		**Total**	
	Number of shares under option	**Weighted average exercise price**	**Number of shares under option**	**Weighted average exercise price**	**Number of shares under option**	**Weighted average exercise price**
	Number	**£**	**Number**	**£**	**Number**	**£**
Outstanding at 1 July 2015	2,214,558	6.54	1,328,334	-	3,542,892	£4.09
Granted during the year	936,109	8.17	388,699	-	1,324,808	£5.85
Exercised during the year	(431,092)	5.94	(675,390)	-	(1,106,482)	£2.31
Forfeited during the year	(277,895)	7.33	(44,953)	-	(322,848)	£6.35
Expired during the year	(6,265)	5.25	(25,978)	-	(32,243)	£1.02
Outstanding at 30 June 2016	**2,435,415**	**7.19**	**970,712**	**-**	**3,406,127**	**£5.14**
Granted during the year	1,650,197	6.88	249,849	-	1,900,046	5.98
Exercised during the year	(713,617)	6.27	(40,540)	-	(754,157)	5.94
Forfeited during the year	(494,581)	7.70	(34,936)	-	(529,517)	7.19
Expired during the year	(9,948)	5.79	-	-	(9,948)	5.79
Outstanding at 30 June 2017	**2,867,466**	**7.15**	**1,145,085**	**-**	**4,012,551**	**5.11**

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 2017:

	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	**-**	**-**	**1,145,085**	**5.21**	**1,145,085**	**5.21**
£5.00 - £6.00	**11,544**	**0.08**	**-**	**-**	**11,544**	**0.08**
£6.00 - £7.00	**1,661,552**	**3.11**	**-**	**-**	**1,661,552**	**3.11**
£7.00 - £8.00	**627,695**	**1.38**	**-**	**-**	**627,695**	**1.38**
£8.00-£9.00	**566,675**	**2.29**	**-**	**-**	**566,675**	**2.29**
	2,867,466	**2.56**	**1,145,085**	**5.21**	**4,012,551**	**3.31**

Notes to the financial statements (continued)

19. Share capital (continued)

The following table summarises information about share awards outstanding at 30 June 2016:

	Sharesave Scheme		Senior management schemes		Total	
	2016	2016	2016	2016	2016	2016
		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	-	-	970,712	5.86	970,712	5.86
£5.00 - £6.00	222,081	1.04	-	-	222,081	1.04
£6.00 - £7.00	629,294	1.46	-	-	629,294	1.46
£7.00 - £8.00	742,000	2.37	-	-	742,000	2.37
£8.00-£9.00	842,040	3.30	-	-	842,040	3.30
	2,435,415	2.33	970,712	5.86	3,406,127	3.34

The exercise prices of options outstanding at 30 June 2017 ranged from £nil to £8.17 (2016: £nil to £8.17). For those outstanding under the Sharesave scheme it was between £5.08 and £8.17 (2016: £4.33 and £8.17) and for all awards outstanding under the Senior Management schemes the exercise price was £nil (2016: £nil).

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 £9.13 (2016: £11.15). 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.

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

(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: £1.67). This was calculated using the Black-Scholes share option pricing model.

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

	30 June 2017	30 June 2016
Share price	**£8.35**	£10.34
Exercise price	**£6.88**	£8.17
Expected volatility	**20.8%**	18.2%
Expected life	**3.8 years**	3.8 years
Expected dividend	**3.4%**	3.3%
Risk-free interest rate	**0.2%**	1.1%

19. Share capital (continued)

(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 £7.26 (2016: £9.88). 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:

	30 June 2017	30 June 2016
Share price	**£9.09**	£11.17
Exercise price	**£0.00**	£0.00
Expected volatility	**20.2%**	18.1%
Expected life	**3 years**	2.1 years
Expected dividend	**3.3%**	3.3%
Risk-free interest rate	**0.2%**	0.8%

20. Notes to the Cash Flow Statement

Reconciliation of profit before tax to cash generated from operations

	30 June 2017 £'000	30 June 2016 £'000
Profit before tax	**63,576**	72,667
Depreciation and impairment of property, plant and equipment	**7,185**	8,662
Amortisation and impairment of intangible assets	**19,548**	21,409
Share-based payment expense	**6,186**	4,941
Finance costs	**7,239**	11,319
Investment income	**(1,100)**	(1,077)
	102,634	117,921
Decrease/(increase) in trade and other receivables	**187,690**	(134,732)
Decrease/(increase) in inventories	**1,520**	(1,390)
(Decrease)/increase in trade and other payables	**(258,429)**	51,605
Increase/(decrease) in provisions	**163**	(983)
Decrease in derivatives financial instruments	**7,705**	26,735
Cash generated from operations	**41,283**	59,156

21. Contracted commitments, contingencies and guarantees

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

	Less than one year £'000	Between one and five years £'000	After five years £'000	Total at 30 June 2017 £'000	Total at 30 June 2016 £'000
Property, plant and equipment	375	-	-	**375**	1,222
Intangible assets	23,380	61,153	-	**84,533**	71,592
Smartcards	34,968	95,805	-	**130,773**	189,204
Other	15,441	190	-	**15,631**	27,098
	74,164	**157,148**	**-**	**231,312**	289,116

b) Contingencies and guarantees

The following guarantees are in place relating to the Group's borrowings: (a) the Company, Sky UK Limited, 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 and (b) the Company, Sky UK Limited, 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.

22. Operating lease commitments

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

	30 June 2017 £'000	30 June 2016 £'000
Within one year	**6,620**	6,437
Between one and five years	**15,016**	15,011
After five years	**4,005**	3,270
	25,641	24,718

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

Notes to the financial statements (continued)

23. Transactions with related parties

a) Key management

The Company has a related party relationship with the Directors of the Company as key management. At 30 June 2017, there were three (2016: two) key managers, all 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 the parent company and other Group companies

The Company conducts business transactions with the parent company and other Group companies:

	30 June 2017	30 June 2016
	£'000	£'000
Supply of services by the Company to the parent	**480,788**	482,874
Supply of services by the Company to other Group companies	**14,971**	35,095

For details of amounts owed by and owed to the parent company and other Group companies, see note 13 and 14.

Principal services supplied to the parent company and other Group companies:
- Subscriber management services
- Conditional access services

The Group's treasury function is responsible for liquidity management across the Company and Group's operations. It is standard practice for the Company to lend and borrow cash to and from the parent company and other Group companies as required. Under this policy, Sky UK Limited has settled liabilities of £681,612,000 (2016: £523,731,000) on behalf of the Company during the year.

c) Other transactions with related parties

During the year the Company conducted business transactions with companies that form part of the 21st Century Fox, Inc. group, a major shareholder in the Company. Amounts outstanding in relation to those transactions with related parties at 30 June are disclosed in note 13.

24. Ultimate parent undertaking

The Company is a wholly-owned subsidiary undertaking of Sky UK Limited, a company incorporated in the United Kingdom and registered in England and Wales. The Company is ultimately controlled by Sky plc ("Sky") and operates together with Sky's other subsidiaries, as a part of 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.