

# SKY SUBSCRIBERS SERVICES LIMITED

Annual report and financial statements  
For the year ended 30 June 2018

Registered number: 02340150



## Directors and Officers

For the year ended 30 June 2018

### **Directors**

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

C J Taylor

D E C Allan

C R Jones (appointed 12 January 2018)

A J Griffith (resigned 12 January 2018)

### **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 2018.

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

## **Business review and principal activities**

The Company is a wholly-owned subsidiary of Sky UK Limited (the immediate parent company). The ultimate 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"). On 9 October 2018 the offer by Comcast Bidco Limited, an indirect wholly-owned subsidiary of Comcast Corporation, to acquire the entire issued and to be issued share capital of Sky plc became wholly unconditional. As a result, and as of that date, the ultimate controlling party of the Company is now Comcast Corporation (note 26).

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 48. The profit after tax for the year was £69,518,000 (2017: £49,386,000). The Company's shareholder's equity is £630,483,000 which is higher than at the prior period end (2017: £551,515,000) 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. For this reason, the Company's directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the Company.

## **Principal risks and uncertainties**

The principal risks facing the Company are liquidity risk, credit risk and foreign exchange 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 balance sheet of the Company includes intercompany balances due from related parties. The Company is therefore exposed to credit risk on these balances. The intercompany balances of the Company are detailed in notes 13 and 14.

### ***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 a £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.

## Strategic and Directors' Report (continued)

### **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 8,604 (2017: 9,673).

### **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. 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

21 November 2018

## Strategic and Directors' Report (continued)

### 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 (2017: £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 himself/herself 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 21 November 2018.

On Behalf of the Board,



C J Taylor  
Director

Grant Way  
Isleworth  
Middlesex  
TW7 5QD

21 November 2018

## 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 (continued)

## 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 of Sky Subscribers Services Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 30 June 2018 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 26.

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

#### Basis for opinion

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

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

#### Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

#### Other information

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

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

## Auditor's report (continued)

in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

### **Responsibilities of directors**

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

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

### **Report on other legal and regulatory requirements**

#### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

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



## Auditor's report (continued)

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

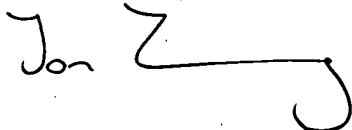
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

### **Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Jon Young FCA (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

21 November 2018

# Income Statement

For the year ended 30 June 2018

	Notes	30 June 2018 £'000	30 June 2017 £'000
<b>Revenue</b>	2	<b>947,346</b>	924,963
Operating expense	3	<b>(878,323)</b>	(855,248)
<b>Operating profit</b>		<b>69,023</b>	69,715
Investment income	4	<b>1,100</b>	1,100
Finance costs	4	<b>(605)</b>	(7,239)
<b>Profit before tax</b>	5	<b>69,518</b>	63,576
Tax	7	<b>(13,765)</b>	(14,190)
<b>Profit for the year attributable to equity shareholder</b>		<b>55,753</b>	49,386

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 2018

	30 June 2018	30 June 2017
	£'000	£'000
<b>Profit for the year attributable to equity shareholder</b>	<b>55,753</b>	<b>49,386</b>
<b>Other comprehensive income</b>		
<b>Amounts recognised directly in equity that may subsequently be recycled to the income statement</b>		
Gain/(Loss) on cash flow hedges (see note 17)	270	(6,318)
Tax on cash flow hedges (see note 7)	(34)	790
	<b>236</b>	<b>(5,528)</b>
<b>Amounts reclassified and reported in the income statement</b>		
Gain on cash flow hedges (see note 17)	5,676	1,495
Tax (charge) on cash flow hedges (see note 7)	(709)	(187)
	<b>4,967</b>	<b>1,308</b>
<b>Other comprehensive loss for the year (net of tax)</b>	<b>5,203</b>	<b>(4,220)</b>
<b>Total comprehensive gain for the year attributable to equity shareholder</b>	<b>60,956</b>	<b>45,166</b>

All results relate to continuing operations.

# Balance Sheet

As at 30 June 2018

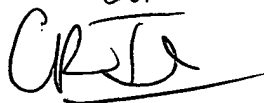
	Notes	30 June 2018 £'000	30 June 2017 £'000
<b>Non-current assets</b>			
Intangible assets	8	209,352	181,881
Property, plant and equipment	9	28,487	32,129
Investment in subsidiaries	10	11,196	11,196
Deferred tax assets	11	5,481	6,814
Other Prepayments		171	-
Derivative financial assets	17	-	-
		<b>254,687</b>	<b>232,020</b>
<b>Current assets</b>			
Inventories	12	502	1,705
Trade and other receivables	13	593,089	550,154
Cash and cash equivalents		10,323	9,821
Derivative financial assets	17	-	-
		<b>603,914</b>	<b>561,680</b>
<b>Total assets</b>		<b>858,601</b>	<b>793,700</b>
<b>Current liabilities</b>			
Borrowings	16	1,643	1,663
Trade and other payables	14	221,593	223,506
Provisions	15	9,479	1,984
Derivative financial liabilities	17	2,265	3,544
		<b>234,980</b>	<b>230,697</b>
<b>Non-current liabilities</b>			
Borrowings	16	2,172	3,823
Trade and other payables	14	4,790	5,283
Derivative financial liabilities	17	-	2,382
		<b>6,962</b>	<b>11,488</b>
<b>Total liabilities</b>		<b>241,942</b>	<b>242,185</b>
Share capital	19	-	-
Share premium	19	149,802	149,802
Reserves		466,857	401,713
<b>Total equity attributable to equity shareholder</b>		<b>616,659</b>	<b>551,515</b>
<b>Total liabilities and shareholder's equity</b>		<b>858,601</b>	<b>793,700</b>

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 21 November 2018 and were signed on its behalf by:

C R Jones

Director



21 November 2018

## Cash Flow Statement

For the year ended 30 June 2018

		30 June 2018	30 June 2017
	Note	£'000	£'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	21	48,394	41,283
<b>Net cash from operating activities</b>		<b>48,394</b>	<b>41,283</b>
<b>Cash flows from investing activities</b>			
Dividends received	4	1,100	1,100
Purchase of property, plant and equipment		(904)	(2,775)
Purchase of intangible assets	8	(45,812)	(32,897)
<b>Net cash used in investing activities</b>		<b>(45,616)</b>	<b>(34,572)</b>
<b>Cash flows from financing activities</b>			
Repayment of obligations under finance leases		(1,671)	(1,178)
Interest paid		(605)	(7,239)
<b>Net cash used in financing activities</b>		<b>(2,276)</b>	<b>(8,417)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>502</b>	<b>(1,706)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>9,821</b>	<b>11,527</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>10,323</b>	<b>9,821</b>

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 2018

	Share capital	Share premium	Hedging reserve	Retained earnings	Total shareholder's equity
	£'000	£'000	£'000	£'000	£'000
<b>At 1 July 2016</b>	-	149,802	(5,122)	355,165	499,845
Profit for the year	-	-	-	49,386	49,386
Recognition and transfer of cash flow hedges:					
- In equity	-	-	(6,318)	-	(6,318)
- In non-financial assets (basis adjustment)	-	-	1,495	-	1,495
Tax on items taken directly to equity	-	-	603	-	603
<b>Total comprehensive income for the year</b>	-	-	(4,220)	49,386	45,166
Share-based payment	-	-	-	6,186	6,186
Tax on items taken directly to equity	-	-	-	318	318
<b>At 30 June 2017</b>	-	149,802	(9,342)	411,055	551,515
Profit for the year	-	-	-	55,753	55,753
Recognition and transfer of cash flow hedges:					
- In equity	-	-	270	-	270
- In non-financial assets (basis adjustment)	-	-	5,676	-	5,676
Tax on items taken directly to equity	-	-	(743)	-	(743)
<b>Total comprehensive income for the year</b>	-	-	5,203	55,753	60,956
Share-based payment	-	-	-	3,504	3,504
Tax on items taken directly to equity	-	-	-	684	684
<b>At 30 June 2018</b>	-	149,802	(4,139)	470,996	616,659

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 private limited liability company, limited by shares, incorporated in the United Kingdom and registered in England and Wales. The address of the registered office is Grant Way, Isleworth, Middlesex, TW7 5QD and registered number is 02340150.

#### 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 2018, this date was 1 July 2018, this being a 52 week year (fiscal year 2017: 2 July 2017, 52 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.

Adjusted measures, which are a type of alternative performance measure, disclosed in the financial statements exclude items that may distort comparability in order to provide a measure of underlying performance. Such items arise from events or transactions that fall within the ordinary activities of the Sky Group but which management believes should be separately identified to help explain underlying performance. Adjusted measures are not defined terms under IFRS and may not be comparable to similar measures used by other companies.

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 accounts which are publicly available (see note 25).

#### c) Intangible assets and Property, plant and equipment ("PPE")

##### i. Intangible assets

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

Other intangible assets, which are acquired by the Company separately or through a business combination, are initially stated at cost or fair value, respectively, less accumulated amortisation and impairment losses.

Amortisation of an intangible asset begins when the asset is available for use, and is charged to the Income Statement through operating expense over the asset's useful economic life in order to match the expected pattern of consumption of future economic benefits embodied in the asset.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

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

##### i. Intangible assets (continued)

Principal useful economic lives used for this purpose are:

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

If the useful life is indefinite or the asset is not yet available for use, no amortisation is charged and an impairment test is carried out at least annually. Other intangible assets are tested for impairment in line with accounting policy g below.

##### ii. Property, plant and equipment ("PPE")

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

The costs of assets comprise the following, where applicable:

- Purchase price, including import duty and non-refundable purchase taxes, after probable trade discounts and rebates
- Directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including relevant delivery and logistics costs

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

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

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



## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

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

##### ii. Property, plant and equipment ("PPE") (continued)

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

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

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

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

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

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

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

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

##### i. Derivatives that qualify for cash flow hedge accounting

Changes in the fair values of derivatives that are designated as cash flow hedges ("cash flow hedging instruments") are initially recognised in the hedging reserve. In circumstances in which the derivative used is a currency option, only changes in the intrinsic value of the option are designated under the cash flow hedging relationship, with all other movements being recorded immediately in the Income Statement.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

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

##### ii. Derivatives that qualify for cash flow hedge accounting (continued)

Amounts accumulated in the hedging reserve are subsequently recognised in the Income Statement/Statement of Comprehensive Income when the related hedged item is recognised in the Income Statement/Statement of Comprehensive Income or in the initial cost or other carrying value of the non-financial asset or liability on the balance sheet, again being recognised in the Income Statement/Statement of Comprehensive Income in the periods in which the related hedged items are recognised in the Income Statement/Statement of Comprehensive Income. 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 in the initial cost or other carrying amount of the non-financial asset or liability on the balance sheet 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.

#### e) Inventories

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

#### f) Financial assets and liabilities

Directly attributable transaction costs are included in the initial measurement of financial assets and liabilities only with respect to those assets and liabilities that are not subsequently measured at fair value through profit and loss. At each balance sheet date, the Company assesses whether there is any objective evidence that any financial asset is impaired.

Financial assets and liabilities are recognised on the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the financial asset or liability. Financial assets are derecognised from the Balance Sheet when the Company's contractual rights to the cash flows expire or the Company transfers substantially all the risks and rewards of the financial asset. Financial liabilities are derecognised from the Company's Balance Sheet when the obligation specified in the contract is discharged, cancelled or expires.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

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

##### 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 also 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.

#### g) Impairment

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

An impairment is recognised in the Income statement whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. The recoverable amount is the greater of net selling price, defined as the fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to those units, and then to reduce the carrying amount of other assets in the unit on a pro-rata basis.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### g) Impairment (continued)

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

#### h) Provisions

Provisions are recognised when the Company has a probable, present legal or constructive obligation to make a transfer of economic benefits as a result of past events where a reliable estimate is available. The amounts recognised represent the Company's best estimate of the transfer of benefits that will be required to settle the obligation as of the balance sheet date.

Provisions are discounted if the effect of the time value of money is material using a pre-tax market rate adjusted for risks specific to the liability.

#### i) Revenue recognition

Revenue, which excludes value added tax, represents the gross inflow of economic benefit from the Company's operating activities, and is measured at the fair value of the consideration received or receivable. The Company's main sources of revenue are derived from intercompany revenue earned from the provision of call centre services to other Group companies and from Irish customers.

#### j) Employee benefits

##### Wages, salaries and social security contributions

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

Where 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 are recognised as a liability at the earlier of when the Company can no longer withdraw the offer of the termination benefit and when the Group recognises any related restructuring costs, such termination being before the normal retirement date or as the result of an offer to encourage voluntary redundancy.

The Company issues equity-settled share-based payments to certain employees which are measured at fair value and recognised as an expense in the Income Statement with a corresponding increase in equity.

The fair values of these payments are measured at the dates of grant using option-pricing models, taking into account the terms and conditions upon which the awards are granted. The fair value is recognised over the period during which employees become unconditionally entitled to the awards, subject to the Company's estimate of the number of awards which will be forfeited, either due to employees leaving the Company prior to vesting or due to non-market based performance conditions not being met. Where an award has market-based performance conditions, the fair value of the award is adjusted for the probability of achieving these via the option pricing model. The total amount recognised in the Income Statement as an expense is adjusted to reflect the actual number of awards that vest, except where forfeiture is due to the failure to meet market-based performance measures. In the event of a cancellation, whether by the Company or by a participating employee, the compensation expense that would have been recognised over the remainder of the vesting period is recognised immediately in the income statement.

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### j) Employee benefits (continued)

Deferred or contingent payments (often referred to as earn-out agreements), arising in business combinations, which are linked to the future employment of previous shareholders in the post-completion period, are recognised as employee remuneration costs in operating expense, whereby the expected fair value of subsequent payments is accrued in accordance with IAS 19. Employee remuneration is presented in operating activities in the cash flow statement.

#### k) Leases

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

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

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

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

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

#### l) Tax, including deferred tax

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

Deferred tax assets and liabilities are recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the Balance Sheet and the corresponding tax bases used in the computation of taxable profits.

Taxable temporary differences arising from goodwill and, except in a business combination, the initial recognition of assets or liabilities that affect neither accounting profit nor taxable profit, are not provided for. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates that have been enacted or substantively enacted at the balance sheet date.

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

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### l) Employee benefits (continued)

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

#### m) Distributions to equity shareholders

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

#### n) Foreign currency translation

The Company's functional currency and presentational currency is pounds sterling.

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

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

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for accounting periods beginning on or after 1 July 2018. 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 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 17 'Insurance Contracts' (effective 1 January 2021)\*
- IFRIC 23 'Uncertainty over Income Tax Treatments' (effective 1 January 2019)\*
- Amendments to IAS 28 'Investments in Associates and Joint Ventures – Long term interests (effective 1 January 2019)\*
- Annual Improvements to IFRS Standards 2015-2017 (effective 1 January 2019)\*
- Amendments to IAS 19 'Employment Benefits' – Plan amendment, Curtailment or Settlement (effective 1 January 2019)\*
- Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020)\*
- Prepayment Features with Negative Compensation – Amendments to IFRS 9 (effective 1 January 2019)\*
- IFRS 15 'Revenue from Contracts with Customers' is effective on the Company from 1 July 18 onwards.

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 obligations

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

#### **o) 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.

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 Group has determined that it will adopt IFRS 15 on a modified retrospective basis. The Group has also determined that the results of its segments will exclude IFRS 15, on the basis that the Group will continue to be managed internally using the Group's current 'cash-led' accounting policies, for both revenue and cost. In line with the modified retrospective adoption approach, the Group will also present its consolidated group result on under both IFRS 15 and its existing accounting policies.

In the current year, management has concluded a detailed accounting scoping analysis across each of the Group's operating segments and across the products and services within the Group's revenue streams, the results of which are summarised below. Management has also determined and developed implementation approaches for each revenue stream based on the potential materiality, complexity and volatility of impacts, utilising a mixture of system led and manually derived estimates, as appropriate given the specific nature of IFRS 15 adjustments identified.

Overall, IFRS 15 is expected to result in the recognition of a material new contract asset and a material new asset pertaining to the costs of obtaining customer contracts. Material year-on-year changes to revenue, operating profit and profit before tax are not anticipated. However, significant and potentially volatile changes in these statutory measures are foreseeable, depending on the specific volume, value and mix of trading activity in a given period.

At the time of finalising and approving the Company financial statements in November 2018, the Company remains in the process of calculating, reviewing and validating the IFRS 15 transition impacts in order to derive the company balance sheet under IFRS 15, as at 30 June 2018. Where practicable, further direction on expected impacts (pre-tax) is provided below.

#### **Direct to consumer revenue – Subscription**

- The Group's revenue recognition for bundled subscription products will no longer be limited to the consideration receivable for a delivered element. As a result, the Group 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 stand-alone 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. Specifically:
  - o Revenue will be brought forward and a contract asset recognised, for the installation of Sky TV and Fibre Broadband services, resulting in higher initial revenue and lower subsequent subscription revenues than our current accounting policy
  - o Revenue will be brought forward and a contract asset recognised, on delivery of equipment which is owned by the customer, such as certain set-top boxes or broadband routers, resulting in higher initial revenue and lower subsequent subscription revenues than our current accounting policy
  - o Revenue will now be allocated to third party equipment and vouchers included within customer bundles for marketing and customer acquisition purposes. As a result, revenue will be brought forward resulting in a contract asset being recognised, compared to our current treatment of recognising a cost upfront on delivery of the marketing offer

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

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

- Where product or service discounts reduce the total consideration for a customer's bundle, these will be allocated to all distinct performance obligations in the bundle. The impact of discounts will be spread over the minimum contract period. Currently, discounts reduce revenue over the offer period, rather than over the minimum contract period.
- Discounts will also be allocated to all distinct performance obligations in the customer bundle on a pro-rata basis. This will reduce the revenue recognised upfront or brought forward, for upfront delivery.
- Certain upfront fees relating to separately identifiable deliverables, but which are concluded not to pertain to distinct performance obligations under IFRS 15 requirements, will result in revenue being deferred compared to our current accounting treatments.
- Certain propositions are concluded to be within the scope of the new 'repurchase agreement' and 'right of return' guidance in IFRS 15. As a result, Sky anticipates deferring a portion of upfront revenues and also a portion of upfront cost, to represent its best estimate of the expected value of the assets it anticipates repurchasing from customers, compared to its current accounting treatment of recognising total revenue and cost on delivery to the customer.
- The accounting for contract modifications not made at stand-alone sales price will differ compared to current accounting treatments of recognising all contract modifications as separate contracts on a prospective basis. This is anticipated to accelerate the amortisation of a given contract asset through revenue, potentially resulting in contract liabilities at certain points of the customer's minimum subscription period. The overall effect of this is anticipated to reduce the quantum of contract asset recognised on balance sheet, at any point in time.
- The Group will apply IFRS 9's new provisioning model to newly recognised contract assets, such that an allowance account will be set-up against the contract asset at inception, to represent the effect of anticipated customer churn within the minimum contract period. The recognition of the new allowance account is expected to decrease the net contract receivable recognised at any point in time, with the corresponding impact being incurred in operating expense.

Across the Group, the cumulative net contract asset recognised as at 30 June 2018 on transition, resulting from the accounting changes to subscription revenues discussed above is expected to be in the order of £20-£70 million.

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

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

With respect to impairment provisions, IFRS 9 introduces a model based on expected credit loss. This requires a provision to be made for impairment from the initial point at which the receivable is recognised, compared to IAS 39 which requires a provision to be made only when a loss event occurs. The IFRS 9 credit loss model is not expected to have a material impact on either the Group's balance sheet position or income statement result.

IFRS 9 requires certain of the Group's trade receivables to be measured at fair value, as opposed to amortised cost. The balance sheet impact of this is expected to be less than £2 million.



## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

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

IFRS 9 requires all available-for-sale investments to be held on the balance sheet at fair value, with associated movements incurred in either the income statement or in equity reserves, as an accounting policy choice. The balance sheet impact on transition is expected to be less than £15 million.

IFRS 9 requires that amounts recognised in non-financial assets (basis adjustment) are removed directly from reserves, rather than being released through other comprehensive income as is currently allowed under IAS 39.

- IFRS 16 'Leases' (effective 1 January 2019)\* and is effective on the Group 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 with the cumulative retrospective impact of IFRS 16 applied as an adjustment to equity on the date of adoption; when the latter approach is applied it is necessary to disclose the impact of IFRS 16 on each line item in the financial statements in the reporting period. Depending on the adoption method that is utilised, certain practical expedients may be applied on adoption. The Group has not yet determined which method it will adopt.

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

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

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

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

The adoption is expected to have a material impact on the presentation of the Company's assets and liabilities, mainly relating to significant property leases. Due to the quantity of contracts under review, management has not completed the impact assessment of the new accounting standard, and therefore a quantification of the impact on the Company's results cannot currently be reliably estimated.

\* not yet endorsed for use in the EU

## Notes to the financial statements (continued)

### 1. Accounting policies (continued)

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

Certain accounting policies are considered to be critical to the Company. An accounting policy is considered to be critical if, in the Directors' judgement, its selection or application materially affects the Company's financial position or results. The application of the Group's accounting policies also requires the use of estimates and assumptions that affect the Group'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 service and TV, home communications and/or mobile 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, which is not contingent on the delivery of additional goods or services.

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.

Mobile handset and tablet revenues are recognised upfront on delivery to the customer. The Sky Mobile proposition includes an option whereby the customer can sell their handset to Sky at a preset market price. This requires the application of judgement in assessing whether or not the customer's option is on-market, taking into account the expected future resale value of the equipment. If the option is concluded to be on-market, the Group recognises handset and tablet revenue on delivery, and any future purchases of customer handsets or tablets at the time of purchase, as inventory.

##### (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)

#### p) 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, which requires an estimation of the period and profile over which the Company expects to consume the future economic benefits embodied in the assets. The Company reviews its useful economic lives on at least an annual basis.

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

Assessing whether assets meet the required criteria for initial capitalisation requires judgement. This requires a determination of whether the assets will result in future benefits to the Company. In particular, internally generated intangible assets must be assessed during the development phase to identify whether the Company has the ability and intention to complete the development successfully.

Determining the costs of assets to be capitalised requires judgement. Specifically, judgement and estimation is required in determining the amount of duties and non-refundable taxes, probable trade discounts and rebates, and directly attributable costs to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management (including relevant delivery and logistics costs to the customer's premises) to be allocated to the asset.

## Notes to the financial statements (continued)

### 2. Revenue

	30 June 2018	30 June 2017
	£'000	£'000
Group support services revenue	525,706	527,432
Irish branch revenue	421,640	397,531
	<b>947,346</b>	<b>924,963</b>

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 2018	30 June 2017
	£'000	£'000
Programming	211,577	148,106
Sales, general and administration	666,746	707,142
	<b>878,323</b>	<b>855,248</b>

### 4. Investment income and finance costs

	30 June 2018	30 June 2017
	£'000	£'000
<b>Investment income</b>		
Distribution receivable <sup>(i)</sup>	1,100	1,100
<b>Finance costs</b>		
Finance lease interest <sup>(ii)</sup>	(106)	(123)
Remeasurement of derivative financial instruments not qualifying for hedge accounting	(499)	(7,116)
	<b>(605)</b>	<b>(7,239)</b>

(i) During the year, the Company received a distribution of £1,100,000 (2017: £1,100,000) 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 £3,815,000 (2017: £5,486,000) (see note 16).

## Notes to the financial statements (continued)

### 5. Profit before tax

Profit before tax is stated after charging:

	30 June 2018	30 June 2017
	£'000	£'000
Cost of inventories recognised as an expense	135	205
Depreciation and impairment of property, plant and equipment	5,904	7,185
Amortisation and impairment of intangible assets	18,341	19,548
Rentals on operating leases and similar arrangements	5,984	6,187

### Foreign exchange

Foreign exchange losses recognised in the Income Statement during the year amounted to £1,359,000 (2017: loss of £7,103,000).

### Audit fees

Amounts paid to the auditor for the audit of the Company's financial statements of £15,000 (2017: £15,000) were borne by another Group subsidiary in 2018 and 2017. No amounts for other services have been paid to the auditor.

## 6. Employee benefits and key management compensation

### a) Company employee benefits

	30 June 2018	30 June 2017
	£'000	£'000
Wages and salaries	268,177	270,201
Social security costs	22,020	22,942
Costs of employee share option schemes <sup>(i)</sup>	3,505	6,186
Contributions to the Sky plc pension scheme ("the Pension Plan") <sup>(ii)</sup>	12,158	12,713
	305,860	312,042

(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 2018 was £2,229,000 (2017: £1,391,000).

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 2017
Customer service, sales and marketing	8,152	8,557
Transmission and technology	-	-
Management and administration	339	986
Channels and services	113	130
	8,604	9,673

### b) Key management compensation

The Directors did not receive any remuneration during the year (2017: £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 2018	30 June 2017
	£'000	£'000
<b>Current tax expense</b>		
Current year	12,715	14,803
Adjustments in respect of prior years	1	(452)
<b>Total current tax</b>	<b>12,716</b>	<b>14,351</b>
<b>Deferred tax expense /(credit)</b>		
Origination and reversal of temporary differences	529	(649)
Adjustment in respect of prior years	520	488
<b>Total deferred tax</b>	<b>1,049</b>	<b>(161)</b>
<b>Tax</b>	<b>13,765</b>	<b>14,190</b>

#### b) Tax recognised directly in equity

	30 June 2018	30 June 2017
	£'000	£'000
Current tax credit relating to share-based payments	224	141
Deferred tax credit relating to share-based payments	460	177
Deferred tax (charge)/credit relating to cash flow hedges	(743)	603
	<b>(59)</b>	<b>921</b>

#### c) Reconciliation of effective tax rate

The tax expense for the year is higher (2017: higher) than the expense that would have been charged using the rate of corporation tax in the UK 19.0% (2017: 19.75%) applied to profit before tax. The applicable or substantively enacted rate of UK corporation tax for the period was 19.0% (2017: 19.75%). The differences are explained below:

	30 June 2018	30 June 2017
	£'000	£'000
Profit before tax	69,518	63,576
Profit before tax multiplied by blended rate of corporation tax in the UK of 19.0% (2017: 19.75%)	13,208	12,556
Effects of:		
Non-deductible expense	2,090	2,908
Non-taxable income	(190)	(221)
Net (decrease) increase in respect of share-based payments	(192)	(180)
Change in corporation tax rate	29	361
Effect of branch exemption	(1,701)	(1,270)
Adjustments in respect of prior years	521	36
<b>Tax</b>	<b>13,765</b>	<b>14,190</b>

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	Software development (external)	Software licences	Other intangible assets	Internally generated assets not yet available for use	Acquired intangible assets not yet available for use	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>							
At 1 July 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)	-
<b>At 30 June 2017</b>	<b>90,483</b>	<b>134,297</b>	<b>24,832</b>	<b>5,349</b>	<b>1,647</b>	<b>118,787</b>	<b>375,395</b>
Additions	2,387	3,016	147	277	18,265	21,720	45,812
Disposals	(817)	(59)	(11)	(16)	-	-	(903)
Transfers	-	-	-	-	-	-	-
<b>At 30 June 2018</b>	<b>92,053</b>	<b>137,254</b>	<b>24,968</b>	<b>5,610</b>	<b>19,912</b>	<b>140,507</b>	<b>420,304</b>
<b>Amortisation</b>							
At 1 July 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)
<b>At 30 June 2017</b>	<b>54,312</b>	<b>115,180</b>	<b>20,763</b>	<b>3,259</b>	<b>-</b>	<b>-</b>	<b>193,514</b>
Amortisation	8,770	6,035	1,223	1,384	-	-	17,412
Impairment	776	119	12	22	-	-	929
Disposals	(817)	(59)	(11)	(16)	-	-	(903)
<b>At 30 June 2018</b>	<b>63,041</b>	<b>121,275</b>	<b>21,987</b>	<b>4,649</b>	<b>-</b>	<b>-</b>	<b>210,952</b>
<b>Carrying amounts</b>							
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
<b>At 30 June 2018</b>	<b>29,012</b>	<b>15,979</b>	<b>2,981</b>	<b>961</b>	<b>19,912</b>	<b>140,507</b>	<b>209,352</b>

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.

	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000
Estimated amortisation charge	30,561	33,093	27,416	20,592	17,399

## Notes to the financial statements (continued)

### 9. Property, plant and equipment

	Freehold land and buildings <sup>(i)</sup> £'000	Leasehold improvements £'000	Equipment, furniture and fixtures £'000	Assets not yet available for use £'000	Total £'000
<b>Cost</b>					
At 1 July 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)	-
<b>At 30 June 2017</b>	<b>21,479</b>	<b>625</b>	<b>34,140</b>	<b>1,057</b>	<b>57,301</b>
Additions	468	210	651	933	2,262
Disposals	-	-	(87)	-	(87)
<b>At 30 June 2018</b>	<b>21,947</b>	<b>835</b>	<b>34,704</b>	<b>1,990</b>	<b>59,476</b>
<b>Accumulated Depreciation</b>					
At 1 July 2016	12,738	149	7,421	-	20,308
Depreciation	783	47	6,331	-	7,161
Impairment	-	24	-	-	24
Disposals	-	(76)	(2,245)	-	(2,321)
<b>At 30 June 2017</b>	<b>13,521</b>	<b>144</b>	<b>11,507</b>	<b>-</b>	<b>25,172</b>
Depreciation	337	56	5,332	-	5,725
Impairment	-	-	179	-	179
Disposals	-	-	(87)	-	(87)
<b>At 30 June 2018</b>	<b>13,858</b>	<b>200</b>	<b>16,931</b>	<b>-</b>	<b>30,989</b>
<b>Carrying amounts</b>					
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
<b>At 30 June 2018</b>	<b>8,089</b>	<b>635</b>	<b>17,773</b>	<b>1,990</b>	<b>28,487</b>

(i) Depreciation was not charged on £634,000 of land (2017: £634,000).

The amounts shown include assets held under finance leases with a net book value of £799,000 (2017: £1,144,000).

The cost of these assets was £8,610,000 (2017: £8,610,000) and the accumulated depreciation was £7,811,000 (2017: £7,466,000). Depreciation charged during the year on such assets was £344,000 (2017: £344,000).



## 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 (%)
<b>Direct holdings</b>			
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 2016	3,897	365	881	730	5,873
(Charge)/credit to income	(315)	(109)	585	-	161
Credit to equity	-	-	177	603	780
<b>At 30 June 2017</b>	<b>3,582</b>	<b>256</b>	<b>1,643</b>	<b>1,333</b>	<b>6,814</b>
(Charge)/credit to income	(392)	2	(660)	-	(1,050)
Credit to equity	-	-	460	(743)	(283)
<b>At 30 June 2018</b>	<b>3,190</b>	<b>258</b>	<b>1,443</b>	<b>590</b>	<b>5,401</b>

Deferred tax asset split:

	30 June 2018 £'000	30 June 2017 £'000
Gross deferred tax assets	5,481	6,814
Net deferred tax asset	5,481	6,814

## Notes to the financial statements (continued)

### 11. Deferred tax (Continued)

Deferred tax assets have been recognised at 30 June 2018 (and 30 June 2017) on the basis that management deem it probable that there will be suitable taxable profits against which these assets can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which they reverse. The rates enacted or substantively enacted for the relevant periods of reversal are: 19.0% from 1 April 2017 and 17.0% from 1 April 2020 in the UK; and 12.5% in the Republic of Ireland.

### 12. Inventories

	30 June 2018	30 June 2017
	£'000	£'000
Raw materials and consumables	502	1,705

### 13. Trade and other receivables

	30 June 2018	30 June 2017
	£'000	£'000
Gross trade receivables	9,620	10,175
Less: provision for impairment of receivables	(4,443)	(4,349)
<b>Net trade receivables</b>	<b>5,177</b>	<b>5,826</b>
Amounts receivable from the parent company	397,397	422,986
Amounts receivable from other Group companies	175,362	109,914
Amounts owed by other related parties	-	316
Prepayments	13,947	10,631
Accrued income	1,201	450
Other receivables	5	31
<b>Current trade and other receivables</b>	<b>593,089</b>	<b>550,154</b>

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 2018	30 June 2017
	£'000	£'000
Up to 30 days past due date	1,313	1,914
30 to 60 days past due date	192	-
60 to 90 days past due date	51	-
90 to 120 days past due date	112	56
More than 120 days past due date	673	357
	<b>2,341</b>	<b>2,327</b>

## Notes to the financial statements (continued)

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

#### Provision for doubtful debts

	30 June 2018	30 June 2017
	£'000	£'000
Balance at beginning of year	4,349	3,328
Amounts utilised	-	-
Income Statement charge (credit)	94	1,021
Balance at end of year	4,443	4,349

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

#### a) Amounts receivable from immediate parent company

Amounts due from immediate parent company Sky UK Limited totalling £397,397,000 (2017: £422,986,000) represent trade receivables; they are non-interest bearing and are repayable on demand.

#### b) Amounts receivable from other Group companies

There are amounts due from other Group companies totalling £130,258,000 (2017: £64,810,000) that are trade receivables; these balances are non-interest bearing and are repayable on demand. The remaining balance of £45,104,000 (2017: £45,104,000) is intercompany loans (see below).

The Company is owed £45,104,000 (2017: £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 2018	30 June 2017
	£'000	£'000
Trade payables	39,597	39,228
Amounts owed to other Group companies	53,789	79,454
VAT	3,693	1,841
Social security and PAYE	5,633	5,689
Other payables	2,530	2,099
Accruals	91,490	73,296
Deferred income	24,861	21,899
<b>Current trade and other payables</b>	<b>221,593</b>	<b>223,506</b>
Non-current other payables	4,790	5,283
<b>Total trade and other payables</b>	<b>226,383</b>	<b>228,789</b>

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 1 July 2016	Provided during the year	Released during the year	Utilise d during the year	At 30 June 2017	Provided during the year	Released during the year	Utilised during the year	At 30 June 2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Current liabilities</b>									
Restructuring provision <sup>(i)</sup>	314	1,028	-	(314)	1,028	6,324	-	(1,028)	6,324
Other provision <sup>(ii)</sup>	1,507	843	(584)	(810)	956	2,260	-	(61)	3,155
	1,821	1,871	(584)	(1,124)	1,984	8,584	-	(1,089)	9,479

(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 2018 £'000	30 June 2017 £'000
<b>Current borrowings</b>		
Obligations under finance leases	1,643	1,663
<b>Non-current borrowings</b>		
Obligations under finance leases	2,172	3,823

#### Finance leases

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

	30 June 2018 £'000	30 June 2017 £'000
Within one year	1,934	1,663
Between one and two years	3,984	1,663
Between two and three years	-	1,663
Between three and four years	-	1,301
Between four and five years	-	-
After five years	-	-
	5,918	6,290
Future finance charges on finance lease liabilities	(2,103)	(804)
<b>Present value of finance lease liabilities</b>	<b>3,815</b>	<b>5,486</b>

Financing arrangements are in connection with the building in Dunfermline. During the year, repayments of £1,638,000 (2017: £1,654,000) 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 2018				30 June 2017			
	Asset		Liabilities		Asset		Liabilities	
	Fair value	Notional	Fair value	Notional	Fair value	Notional	Fair value	Notional
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cash flow hedges:</b>								
Forward exchange contracts	-	-	(2,046)	62,699	-	-	(4,945)	137,861
<b>Derivatives not in a formal hedge relationship:</b>								
Forward exchange contracts	-	-	(219)	12,381	-	-	(981)	83,472
Total	-	-	(2,265)	75,080	-	-	(5,926)	221,333

The maturity of the derivative financial instruments is as follows:

	30 June 2018		30 June 2017	
	Asset	Liability	Asset	Liability
	£'000	£'000	£'000	£'000
In one year or less	-	(2,265)	-	(3,544)
Between one and two years	-	-	-	(2,382)
Between two and five years	-	-	-	-
Total	-	(2,265)	-	(5,926)

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.

## Notes to the financial statements (continued)

### 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 £5,676,000 were removed from the hedging reserve and debited against revenue in the income statement (2017: losses of £1,495,000).

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 (2017: £nil).

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 2018 there were no instances in which the hedge relationship was not highly effective, all falling within the permitted 80% to 125% effectiveness ratio (2017: no instances).

## 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
<b>At 30 June 2018</b>					
Derivative financial instruments	(2,265)	-	-	(2,265)	(2,265)
Trade and other payables	-	-	(192,196)	(192,196)	(192,196)
Obligations under finance leases	-	-	(3,815)	(3,815)	(3,815)
Trade and other receivables	-	579,142	-	579,142	579,142
Cash and cash equivalents	-	10,323	-	10,323	10,323
<b>At 30 June 2017</b>					
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

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 2018 and 30 June 2017. 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
<b>At 30 June 2018</b>				
<i>Financial liabilities</i>				
<i>Financial liabilities at fair value through profit or loss</i>				
Forward foreign exchange contracts	(2,265)	-	(2,265)	-
<b>Total</b>	<b>(2,265)</b>	<b>-</b>	<b>(2,265)</b>	<b>-</b>
<b>At 30 June 2017</b>				
<i>Financial liabilities</i>				
<i>Financial liabilities at fair value through profit or loss</i>				
Forward foreign exchange contracts	(5,926)	-	(5,926)	-
<b>Total</b>	<b>(5,926)</b>	<b>-</b>	<b>(5,926)</b>	<b>-</b>

#### Level 1

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

#### Level 2

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

#### Level 3

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

### 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.



## Notes to the financial statements (continued)

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

#### 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.

	Less than 12 months £'000	Between one and two years £'000	Between two and five years £'000	More than five years £'000
<b>At 30 June 2018</b>				
<i>Non-derivative financial liabilities</i>				
Trade and other payables	192,196	-	-	-
Obligations under finance leases	1,934	3,984	-	-
<i>Gross settled derivatives</i>				
Outflow	75,080	-	-	-
Inflow	(73,302)	-	-	-

#### At 30 June 2017

<i>Non-derivative financial liabilities</i>				
Trade and other payables	194,830	-	-	-
Obligations under finance leases	1,663	1,663	2,964	-
<i>Gross settled derivatives</i>				
Outflow	147,175	74,159	-	-
Inflow	(144,299)	(72,865)	-	-

#### Foreign exchange risk

At 30 June 2018, the Company had outstanding commitments to sell, in aggregate, €84,900,000 (2017: €251,900,000) at an average rate of €1.1600 (2017 €1.1600).

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.

## Notes to the financial statements (continued)

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

#### 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 the effect of reducing profit by £2,418,000 (2017: beneficial impact on profit of £13,117,000). The same move would have a beneficial impact on other equity of £12,540,000 (2017: beneficial impact on other equity of £27,572,000).
- A 25% weakening in pounds sterling against the Euro would have the effect of increasing profit of £4,030,000 (2017: adverse impact on profit of £21,862,000). The same move would have an adverse impact on other equity of £20,901,000 (2017: adverse impact on other equity of £45,954,000).

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 2018	30 June 2017
	£	£
<b>Allotted, called-up and fully paid</b>		
5 (2017: 5) ordinary shares of £1 (2017: £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 2018	30 June 2017
	£' 000	£' 000
<b>Share premium</b>	149,802	149,802

## Notes to the financial statements (continued)

### 19. Share capital (continued)

#### Share option and contingent share award schemes

The Company operates various equity-settled share option schemes (the "Schemes") for certain employees, using shares in the Company's ultimate parent company, Sky Plc. The share awards outstanding can be summarised as follows:

Scheme	30 June 2018	30 June 2017
	Number of ordinary shares	Number of ordinary shares
Sharesave Scheme options (i)	3,109,720	2,867,466
Management LTIP awards (ii)	462,317	1,036,911
Management Co-Investment LTIP awards (iii)	123,551	108,174
	<b>3,695,588</b>	<b>4,012,551</b>

#### (i) Sharesave Scheme options

All Sharesave Scheme options outstanding at 30 June 2018 and 30 June 2017 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 in the UK and Ireland. Options are normally exercisable after either three or five years from the date of grant. The price at which options are offered is not less than 80% of the middle-market price on the dealing day immediately preceding the date of invitation. It is the policy of the Group to make an invitation to employees to participate in the scheme following the announcement of the end of year results.

#### (ii) Management LTIP awards

All Management LTIP awards outstanding at 30 June 2018 and 30 June 2017 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.

Sky plc grants awards to selected employees under the Management LTIP. Awards under this scheme mirror the LTIP, with the same performance conditions. Awards exercised under the Management LTIP can only be satisfied by the issue of market-purchased shares.

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

All Management Co-Investment LTIP awards outstanding at 30 June 2018 and 30 June 2017 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.

## Notes to the financial statements (continued)

### 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 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	<b>2,867,466</b>	<b>7.15</b>	<b>1,145,085</b>	-	<b>4,012,551</b>	<b>5.11</b>
Granted during the year	1,321,721	7.52	306,797	-	1,628,518	6.10
Exercised during the year	(599,391)	6.96	(843,160)	-	(1,442,551)	2.89
Forfeited during the year	(470,556)	7.27	(22,854)	-	(493,410)	6.93
Expired during the year	(9,520)	6.77	-	-	(9,520)	6.77
Outstanding at 30 June 2018	<b>3,109,720</b>	<b>7.33</b>	<b>585,868</b>	-	<b>3,695,588</b>	<b>6.17</b>

The weighted average market price of Sky's shares at the date of exercise for share options exercised during the year was £9.89 (2017: £9.46).

The following table summarises information about share awards outstanding at 30 June 2018:

	Sharesave Scheme		Senior management schemes		Total	
	2018	2018	2018	2018	2018	2018
		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	-	-	585,868	5.4	585,868	5.4
£6.00 - £7.00	1,330,190	2.2	-	-	1,330,190	2.2
£7.00 - £8.00	1,303,212	3.3	-	-	1,303,212	3.3
£8.00-£9.00	476,318	1.3	-	-	476,318	1.3
	<b>3,109,720</b>	<b>2.5</b>	<b>585,868</b>	<b>5.4</b>	<b>3,695,588</b>	<b>3.0</b>

## Notes to the financial statements (continued)

### 19. Share capital (continued)

The following table summarises information about share awards outstanding at 30 June 2017:

Range of Exercise Prices	Sharesave Scheme		Senior management schemes		Total	
	2017	2017	2017	2017	2017	2017
	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life Years	Number	Weighted average remaining contractual life 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
	<b>2,867,466</b>	<b>2.56</b>	<b>1,145,085</b>	<b>5.21</b>	<b>4,012,551</b>	<b>3.31</b>

The exercise prices of options outstanding at 30 June 2018 ranged from £nil to £8.17 (2017: £nil to £8.17). For those outstanding under the Sharesave scheme it was between £6.82 and £8.17 (2017: £5.08 and £8.17) and for all awards outstanding under the Senior Management schemes the exercise price was £nil (2017: £nil).

The following table summarises additional information about the awards exercisable at 30 June 2018 and 30 June 2017:

	2018			2017		
	Options exercisable at 30 June	Average remaining life of exercisable options	Weighted average exercise price £	Options exercisable at 30 June	Average remaining life of exercisable options	Weighted average exercise price £
Sharesave Scheme	12,155	0.1	7.08	34,218	0.1	6.23
Senior Management Schemes	24,535	3.8	-	495,174	2.9	-
	<b>36,689</b>	<b>2.5</b>	<b>2.35</b>	<b>529,392</b>	<b>0.9</b>	<b>0.40</b>

#### 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 £3.02 (2017: £9.13). 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.

## Notes to the financial statements (continued)

### 19. Share capital (continued)

#### (i) Sharesave scheme

The weighted average fair value of equity-settled share awards granted during the year under the Sharesave Scheme, as estimated at the date of grant, was £1.90 (2017: £1.19). 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 2018	30 June 2017
Share price	<b>£9.30</b>	£8.35
Exercise price	<b>£7.52</b>	£6.88
Expected volatility	<b>22.7%</b>	20.8%
Expected life	<b>3.7 years</b>	3.8 years
Expected dividend	<b>1.6%</b>	3.4%
Risk-free interest rate	<b>0.7%</b>	0.2%

#### (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 £7.84 (2017: £7.26). 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 2018	30 June 2017
Share price	<b>£9.78</b>	£9.09
Exercise price	<b>£0.00</b>	£0.00
Expected volatility	<b>23.9%</b>	20.2%
Expected life	<b>2.1 years</b>	3 years
Expected dividend	<b>2.7%</b>	3.3%
Risk-free interest rate	<b>0.2%</b>	0.2%

## Notes to the financial statements (continued)

### 20. Shareholder's equity

	2018 £'000	2017 £'000
Share capital	-	-
Share premium	149,802	149,802
Hedging reserve	(3,052)	(8,478)
Retained earnings	469,909	410,191
	<b>616,659</b>	<b>551,515</b>

#### Hedging reserve

Changes in the fair values of derivatives that are designated as cash flow hedges are initially recognised in the hedging reserve, and subsequently recognised in the income statement when the related hedged items are recognised in the income statement or in the initial cost or other carrying value of the non-financial asset or liability on the balance sheet, again being recognised in the Income Statement in the periods in which the related hedged items are recognised in the Income Statement. In addition, deferred tax relating to these derivatives is also initially recognised in the hedging reserve prior to transfer to the income statement.

### 21. Notes to the Cash Flow Statement

#### Reconciliation of profit before tax to cash generated from operations

	30 June 2018 £'000	30 June 2017 £'000
<b>Profit before tax</b>	<b>69,518</b>	63,576
Depreciation and impairment of property, plant and equipment	5,904	7,185
Amortisation and impairment of intangible assets	18,341	19,548
Share-based payment expense	3,505	6,186
Finance costs	605	7,239
Investment income	(1,100)	(1,100)
	<b>96,773</b>	102,634
(Increase)/decrease in trade and other receivables	(55,597)	187,690
Decrease in inventories	1,203	1,520
Increase /(decrease) in trade and other payables	(3,764)	(258,429)
Increase in provisions	7,495	163
Decrease in derivatives financial instruments	2,284	7,705
<b>Cash generated from operations</b>	<b>48,394</b>	<b>41,283</b>

## Notes to the financial statements (continued)

### 22. 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 2018 £'000	Total at 30 June 2017 £'000
Property, plant and equipment	67	-	-	67	375
Intangible assets	22,264	39,641	-	61,905	84,533
Smartcards	32,589	64,639	-	97,228	130,773
Other	21,504	39,641	-	61,145	15,631
	<b>76,424</b>	<b>143,921</b>	<b>-</b>	<b>220,345</b>	<b>231,312</b>

Commitments in relation to the provision of smartcards. Smartcards under development are included within intangible assets. The amounts included above are the expected ongoing smartcard costs based on forecast customer levels.

#### b) Contingencies and guarantees

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

### 23. Operating lease commitments

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

	30 June 2018 £'000	30 June 2017 £'000
Within one year	<b>5,337</b>	6,620
Between one and five years	<b>15,164</b>	15,016
After five years	<b>9,638</b>	4,005
	<b>30,139</b>	<b>25,641</b>

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)

### 24. 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 2018, there were three (2017: three) key managers, all of whom were Directors of the Company. The Directors received Nil remuneration in respect of their services to the Company (2017: 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 2018	30 June 2017
	£'000	£'000
Supply of services by the Company to the parent	477,310	480,788
Supply of services by the Company to other Group companies	16,389	14,971

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 £451,721,000 (2017: £681,612,000) 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.

### 25. Ultimate parent undertaking

The Company is a wholly-owned subsidiary undertaking of Sky UK Limited, a Company incorporated and registered in England and Wales. The Company is ultimately controlled by Sky plc. The only group in which the results of the Company are consolidated is that headed by Sky.

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

### 26. Post Balance Sheet Event

On 9 October 2018 the offer by Comcast Bidco Limited, an indirect wholly-owned subsidiary of Comcast Corporation, to acquire the entire issued and to be issued share capital of Sky plc became wholly unconditional. As a result, and as of that date, the ultimate controlling party of the Company is now Comcast Corporation.