

SKY RETAIL STORES LIMITED

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

Registered number: 03990450



Directors and Officers

For the year ended 30 June 2017

Directors

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

C J Taylor

C R Jones

K Holmes (appointed 21 October 2016)

Company Secretary

C J Taylor

Registered office

Grant Way

Isleworth

Middlesex

United Kingdom

TW7 5QD

Auditor

Deloitte LLP

Statutory Auditor

London

United Kingdom

Strategic and Directors' Report

Strategic Report

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

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

Business review and principal activity

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

The Company's principal activity is as a sales and advisory outlet for Sky Television, Sky Broadband and Sky Talk products. Operations are conducted from kiosk based units which are located in many UK shopping centres. These outlets provide the Company's customers with the opportunity to ask questions about, and see demonstrations of, Sky products before subscribing to any service. During the year the Company conducted a review of the sales and advisory operations and made the decision to close 62 retail stores to deliver cost savings. This decision was made following a performance review and targeted the lowest performing stores based on profitability. The decision has resulted in staff redundancies at affected stores from February 2017. The Directors are not aware, at the date of this report, of any other likely major changes in the Company's activities in the next year.

The audited financial statements for the year ended 30 June 2017 are set out on pages 8 to 24. The profit for the year was £4,115,000 (2016: profit of £2,865,000). Revenue has decreased to £39,404,000 (2016: £39,903,000) and operating expenses have decreased to £35,822,000 (2016: £36,300,000). The Company uses a cost-plus revenue model, in which costs are recharged to Sky UK Limited. The Directors do not recommend the payment of a dividend for the year ended 30 June 2017 (2016: £nil). The balance sheet shows that the Company's shareholder's equity position at the year was £11,230,000 (2016: £7,115,000).

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 Company's activities expose it to financial risks, namely credit risk and liquidity risk. The Directors do not believe the Company is exposed to significant cash flow risk, price risk, foreign exchange or interest rate risk.

Credit risk

The balance sheet of the Company includes intercompany balances and 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 9 and 10.

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.

Strategic and Directors' Report (continued)

Employment policies

Organisation

Over the past year, the Company has continued in its efforts to make the Company a great place to work. The Company has continued to place particular focus on leadership capability, looking both at the Company's leaders of today and future leaders. The average monthly number of full-time equivalent persons employed by the Company during the year was 782 (2016: 859).

Managing and developing our people

Equal opportunities

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

Inclusion

It's our people that make Sky Europe's leading entertainment company and we know that embracing different perspectives fosters innovation. Having diverse voices contribute to the decisions we take as a business helps us better anticipate and meet the needs of all our customers. Our ambition is to become the industry leader for inclusion, both on screen and behind the scenes. To help us achieve this we are focused on increasing the representation of people from BAME (Black, Asian, and minority ethnic) backgrounds in our business and remain committed to achieving gender parity. We have put in place a range of initiatives to achieve this ambition and they're already making a difference. For example, we have increased the number of women in the top 400 positions from 32% to 39%. We are also actively supporting women to develop skills in traditionally underrepresented areas, with initiatives such as 'Get into Tech'. We support the aims of the new UK legislation requiring organisations to publish their gender pay gap and are committed to equal pay.

Employee engagement

At Sky we listen to our people and encourage everyone to be involved. We know great ideas come from all corners of our business and it is part of our 'believe in better' spirit to harness those ideas for the benefit of our customers and our people. This year we used a new survey provider, GLINT, to gather feedback from our teams in the UK, ROI and Italy. We achieved record levels of participation in the survey (82% in the UK and ROI and 79% in Italy) and we continue to achieve high levels of engagement, outperforming external benchmarks by 8% in the UK and ROI and 13% in Italy. In July 2017 the survey was extended to the whole Sky Group which will allow us to consistently gather feedback from all five territories we operate in.

By Order of the Board,

K Holmes
Director

Grant Way
Isleworth
Middlesex
United Kingdom
TW7 5QD

14 March 2018

Strategic and Directors' Report (continued)

Directors' Report

The Directors who served during the year are shown on page 1. During the year ended the Directors proposed a dividend of £nil (2016: £nil).

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

Going concern

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:

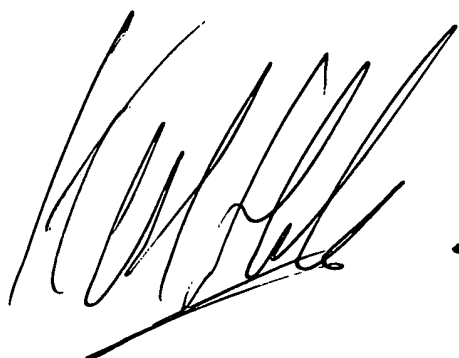
- so far as the Director is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information (as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

Deloitte LLP have expressed their willingness to continue as auditor and a resolution to reappoint them was approved by the Board of Directors on 14 March 2018.

By Order of the Board,

K Holmes
Director

Grant Way
Isleworth
Middlesex
United Kingdom
TW7 5QD



14 March 2018

Directors' Responsibilities Statement

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.

Independent auditor's report to the members of Sky Retail Stores Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Sky Retail Stores Limited (the 'company') which comprise:

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

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

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

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

We have nothing to report in respect of these matters.

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.

Independent auditor's report to the members of Sky Retail Stores Limited (continued)

Responsibilities of directors (continued)

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

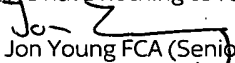
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.


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

14 March 2018

Statement of Comprehensive Income

For the year ended 30 June 2017

| | Notes | 2017 | 2016 |
|---|-------|-----------------|----------|
| | | £'000 | £'000 |
| Revenue | 2 | 39,404 | 39,903 |
| Operating expense | 3 | (35,822) | (36,300) |
| Operating profit | | 3,582 | 3,603 |
| Profit before tax | 4 | 3,582 | 3,603 |
| Tax | 6 | 533 | (738) |
| Profit for the year attributable to equity shareholder | | 4,115 | 2,865 |

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

For the years ended 30 June 2016 and 30 June 2017, the Company did not have any other items of Comprehensive Income.

All results relate to continuing operations.

Balance Sheet

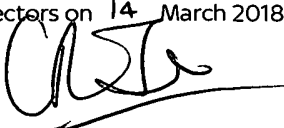
As at 30 June 2017

| | Notes | 2017 £'000 | 2016 £'000 |
|--|-------|---------------|---------------|
| Non-current assets | | | |
| Property, plant and equipment | 7 | 431 | 106 |
| Deferred tax assets | 8 | 385 | 551 |
| Current assets | | | |
| Trade and other receivables | 9 | 15,800 | 14,938 |
| Total assets | | 16,616 | 15,595 |
| Current liabilities | | | |
| Trade and other payables | 10 | 3,448 | 5,034 |
| Provisions | 11 | 1,938 | 3,446 |
| Total liabilities | | 5,386 | 8,480 |
| Share capital | 15 | 50 | 50 |
| Share premium | 15 | 1,040 | 1,040 |
| Retained Earnings | 15 | 10,140 | 6,025 |
| Total equity attributable to equity shareholder | | 11,230 | 7,115 |
| Total liabilities and shareholders' equity | | 16,616 | 15,595 |

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

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

The financial statements of Sky Retail Stores Limited, registered number 03990450 were approved by the Board of Directors on 14 March 2018 and were signed on its behalf by:


C R Jones
Director

14 March 2018

Statement of Changes in Equity

For the year ended 30 June 2017

| | Share Capital £'000 | Share Premium £'000 | Retained Earnings £'000 | Total shareholders' equity £'000 |
|------------------------|---------------------------|---------------------------|-------------------------------|---|
| At 1 July 2015 | 50 | 1,040 | 3,160 | 4,250 |
| Profit for the year | - | - | 2,865 | 2,865 |
| At 30 June 2016 | 50 | 1,040 | 6,025 | 7,115 |
| Profit for the year | - | - | 4,115 | 4,115 |
| At 30 June 2017 | 50 | 1,040 | 10,140 | 11,230 |

Notes to the financial statements

1. Accounting policies

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

a) Statement of compliance

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

b) Basis of preparation

The financial statements have been prepared on a going concern basis (as set out in the Director's Report) and on a historical cost basis, except for the remeasurement to fair value of certain financial assets and liabilities as described in the accounting policies below. The Company has adopted the new accounting pronouncements which became effective this period, none of which had a significant impact on the Company's results or financial position.

The Company maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal year 2017, this date was 2 July 2017 this being a 52 week year (fiscal year 2016: 3 July 2016, 53 week year). For convenience purposes, the Company continues to date its financial statements as at 30 June. The Company has classified assets and liabilities as current when they are expected to be realised in, or intended for sale or consumption in, the normal operating cycle of the Company.

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

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

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

| | |
|--|---------------|
| Equipment, furniture and fixtures (including sales kiosks) | 3 to 20 years |
|--|---------------|

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

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

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

Notes to the financial statements (continued)

1. Accounting policies (continued)

d) Financial assets and liabilities

Directly attributable transaction costs are included in the initial measurement of financial assets and liabilities only with respect to those assets and liabilities that are not subsequently measured at fair value through profit and loss. At each balance sheet date, the Company assesses whether there is any objective evidence that any financial asset is impaired. Financial assets and liabilities are recognised on the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the financial asset or liability. Financial assets are derecognised from the Balance Sheet when the Company's contractual rights to the cash flows expire or the Company transfers substantially all the risks and rewards of the financial asset. Financial liabilities are derecognised from the Company's Balance Sheet when the obligation specified in the contract is discharged, cancelled or expires.

i. Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments and, where no stated interest rate is applicable, are measured at the original invoice amount, if the effect of discounting is immaterial. Where discounting is material, trade and other receivables are measured at amortised cost using the effective interest method. An allowance account is maintained to reduce the carrying value of trade and other receivables for impairment losses identified from objective evidence, with movements in the allowance account, either from increased impairment losses or reversals of impairment losses, being recognised in the Statement of Comprehensive Income.

ii. Trade and other payables

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

e) 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 financial assets (see accounting policy d) and deferred tax (see accounting policy j) to determine whether there is any indication that any of those assets have suffered an impairment loss.

An impairment is recognised in the Statement of Comprehensive Income 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)

f) 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.

g) 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 principal activity is the operation of sales and advisory outlets for Sky Television, Sky Broadband and Sky Talk products. The main source of revenue derives from recharges to other companies in the Sky Group of companies.

h) 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 Statement of Comprehensive Income as the employees' services are rendered.

Pension Obligations

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

Termination Benefits

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

i) Leases

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

When the Company is 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 Statement of Comprehensive Income 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.

Notes to the financial statements (continued)

1. Accounting policies (continued)

j) Tax, including deferred tax

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

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

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

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 Statement of Comprehensive Income, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also included within equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the Company intends to settle its current tax assets and liabilities on a net basis.

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

The Company has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for accounting periods beginning on or after 1 July 2017. These new pronouncements are listed below: The Directors are currently evaluating the impact of the adoption of these standards, amendments and interpretations in future periods.

- Amendments to IAS 7 '*Disclosure Initiative*' (effective 1 January 2017)*
- Amendments to IAS 12 '*Recognition of Deferred Tax Assets for Unrealised Losses*' (effective 1 January 2017)*
- IFRS 15 '*Revenue from Contracts with Customers*' (effective 1 January 2018) and is effective on the Company from 1 July 18 onwards

When IFRS 15 is adopted, it can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, or with the cumulative impact of IFRS 15 applied as an adjustment to equity on the date of adoption; when the latter approach is applied, it is necessary to disclose the impact of IFRS 15 on each line item in the financial statements in the reporting period. The Company has not yet determined which method will be adopted.

Notes to the financial statements (continued)

1. Accounting policies (continued)

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

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

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

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

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

Qualitatively, management currently expects the following impacts:

- The Company's revenue recognition for bundled subscription products will no longer be limited to cash received or consideration receivable for a delivered element. As a result, the Company will bring forward revenue for distinct products and services delivered at the start of a subscription contract, where the price charged for those performance obligations is lower than the standalone selling price. This will correspondingly reduce subsequent subscription revenue across the remainder of the customer contract, but will not change revenue recognised in total or the amount or timing of associated cash flows
- Where product or service discounts reduce the total consideration for a customer's bundle, the revenue which will be brought forward for upfront deliverables will be reduced. The impact of discounts will be spread over the minimum contract period. There is also new guidance regarding how and to which products discounts should be allocated, which may result in differences to current treatments
- Under the guidance as to what constitutes distinct performance obligations, there may be differences compared to what the Company currently considers to be separately identifiable deliverables. Management will also need to consider any associated cost implications of any differences
- Under the guidance regarding contract modifications, the accounting for contract modifications not made at standalone sales price, is expected to differ compared to current accounting treatments
- There may be certain costs to obtain customer contracts that will require capitalisation and amortisation over the period the Company expects to benefit from the customer relationship, compared to being expensed as incurred, as currently
- Existing Principal versus Agent judgements require evaluation against new guidance. Should current judgements change, this could significantly change gross revenue and cost, but with no expected impact on operating profit
- The phasing of revenue for long-term contracts may vary compared to current treatments

Notes to the financial statements (continued)

1. Accounting policies (continued)

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

- IFRS 9 'Financial Instruments' (effective 1 January 2018) and is effective on the Company from 1 July 2018 onwards.

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

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

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

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

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

When IFRS 16 is adopted, it can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, or within the cumulative retrospective impact of IFRS 16 applied as an adjustment to equity on the date of adoption; when the latter approach is applied it is necessary to disclose the impact of IFRS 16 on each line item in the financial statements in the reporting period. Depending on the adoption method that is utilised, certain practical expedients may be applied on adoption. The Company has not yet determined which method will be adopted.

IFRS 16 replaces IAS 17 'Leases' and will primarily change lease accounting for lessees; lessor accounting under IFRS 16 is expected to be similar to lease accounting under IAS 17.

Where a contract meets IFRS 16's definition of a lease and new associated guidance, where the Company acts as a lessee, lease agreements will give rise to the recognition of a non-current asset representing the right to use the leased item, and a loan obligation for future lease payables on the Company's balance sheet.

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

The Company is currently assessing the impact of the accounting changes that will arise under IFRS 16. Lessee accounting under IFRS 16 will be similar in many respects to existing IAS 17 accounting for finance leases, but is expected to be substantively different to existing accounting for operating leases.

* not yet endorsed for use in the EU

l) Critical accounting policies and the use of judgement

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

Notes to the financial statements (continued)

1. Accounting policies (continued)

1) Critical accounting policies and the use of judgement (continued)

(i) Tax (see notes 6 & 8)

- The Company's tax charge is the sum of the total current and deferred tax charges. The calculation of the Company's total tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process.
- Provisions for tax contingencies require management to make judgements and estimates in relation to tax audit issues and exposures. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Tax benefits are not recognised unless it is probable that the tax positions will be sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of the likely resolution of the issue through negotiation and/or litigation.
- The amounts recognised in the financial statements in respect of each matter are derived from the Company's best estimation and judgement, as described above. However, the inherent uncertainty regarding the outcome of these items means the eventual resolution could differ from the provision and in such event the Company would be required to make an adjustment in a subsequent period which could have a material impact on the Company's profit and loss and/or cash position.
- The key area of judgement in respect of deferred tax accounting is the assessment of the expected timing and manner of realisation or settlement of the carrying amounts of assets and liabilities held at the balance sheet date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deferred tax assets can be utilised.

2. Revenue

Revenue is wholly derived from the principal activity of the Company undertaken in the United Kingdom. The Company's principal activity is the operation of sales and advisory outlets for Sky Television, Sky Broadband and Sky Talk products. The revenue generated from such activity was £39,404,000 (2016: £39,903,000).

3. Operating expense

| | 2017 £'000 | 2016 £'000 |
|-----------------------------------|---------------|---------------|
| Sales, general and administration | 35,822 | 36,300 |
| | 35,822 | 36,300 |

Notes to the financial statements (continued)

4. Profit before tax

| | | |
|--|--------------|--------------|
| Profit before tax is stated after charging: | 2017 | 2016 |
| | £'000 | £'000 |
| Depreciation and impairment of property, plant and equipment | 256 | 517 |

Audit fees

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

5. Employee benefits and key management compensation

| | | |
|--|----------------|----------------|
| | 2017 | 2016 |
| | £('000) | £('000) |
| Wages and salaries | 28,198 | 26,557 |
| Social security costs | 3,650 | 3,187 |
| Redundancy costs | 3,587 | - |
| Contributions to the Sky Pension Plan (the "Pension Plan") (i) | 765 | 596 |
| | 36,200 | 30,340 |

(i) Sky plc ("Sky") operates a defined contribution pension scheme (the "Pension Plan"). The pension charge for the year represents the cost of contributions payable by the Company to the schemes during the year. The amount payable to the schemes at 30 June 2017 was £nil (2016: £nil).

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

| | | |
|---------------------------------------|---------------|---------------|
| | 2017 | 2016 |
| | Number | Number |
| Customer service, sales and marketing | 736 | 802 |
| Management and administration | 46 | 57 |
| | 782 | 859 |

There are 0 (2016: 12) temporary staff included within the average number of full-time equivalent persons employed by the Company.

The Directors did not receive any remuneration during the year (2016: £nil) in respect of their services to the Company.

Notes to the financial statements (continued)

6. Tax

a) Tax recognised in the statement of comprehensive income

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Current tax expense / (credit) | | |
| Current year | - | 699 |
| Adjustment in respect of prior years | (699) | - |
| Total current tax (credit) / charge | (699) | 699 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | 168 | 23 |
| Adjustment in respect of prior years | 4 | (12) |
| Adjustment in respect of change in tax rates | (6) | 28 |
| Total deferred tax charge [note 8] | 166 | 39 |
| Tax | (533) | 738 |

b) Reconciliation of effective tax rate

The tax expense for the year is lower (2016: higher) than the expense that would have been charged using the blended rate of corporation tax in the UK (19.75%, 2016: 20.00%) applied to profit before tax. The differences are explained below:

| | 2017 £'000 | 2016 £'000 |
|--|---------------|---------------|
| Profit before tax | 3,582 | 3,603 |
| Profit before tax multiplied by blended rate of corporation tax in the UK of 19.75% (2016: 20.00%) | 707 | 721 |
| Effects of: | | |
| Non-deductible expense | 1 | 1 |
| Deferred tax write off following tax rate change | (6) | 28 |
| Group relief claimed for Enil consideration | (540) | - |
| Adjustment in respect of prior years | (695) | (12) |
| Tax | (533) | 738 |

All tax relates to UK corporation tax.

Notes to the financial statements (continued)

7. Property, plant and equipment

| | Kiosks £'000 | Office Equipment £'000 | Total £'000 |
|-------------------------|-----------------|------------------------------|----------------|
| Cost | | | |
| At 1 July 2015 | 2,126 | 122 | 2,248 |
| Additions | 11 | - | 11 |
| At 30 June 2016 | 2,137 | 122 | 2,259 |
| Additions | 577 | 4 | 581 |
| At 30 June 2017 | 2,714 | 126 | 2,840 |
| Depreciation | | | |
| At 1 July 2015 | 1,514 | 122 | 1,636 |
| Depreciation | 517 | - | 517 |
| At 30 June 2016 | 2,031 | 122 | 2,153 |
| Depreciation | 256 | - | 256 |
| At 30 June 2017 | 2,287 | 122 | 2,409 |
| Carrying amounts | | | |
| At 1 July 2015 | 612 | - | 612 |
| At 30 June 2016 | 106 | - | 106 |
| At 30 June 2017 | 427 | 4 | 431 |

8. Deferred tax

Recognised deferred tax asset

| | Fixed asset timing differences £'000 |
|--------------------------------------|---|
| At 1 July 2015 | 590 |
| Adjustment in respect of prior years | 12 |
| Credit to income | (23) |
| Effect of change in tax rate | (28) |
| At 30 June 2016 | 551 |
| Adjustment in respect of prior years | (4) |
| Charge to income | (168) |
| Effect of change in tax rate | 6 |
| At 30 June 2017 | 385 |

Notes to the financial statements (continued)

8. Deferred tax (continued)

Deferred tax assets have been recognised at 30 June 2017 (and 30 June 2016) 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% from 1 April 2017 and 17% from 1 April 2020 in the UK (2016: 18%).

9. Trade and other receivables

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Amounts receivable from immediate parent company ^(a) | 15,439 | 14,344 |
| Amounts receivable from other Group companies ^(b) | 112 | 112 |
| VAT | 249 | 482 |
| Total trade and other receivables | 15,800 | 14,938 |

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

a) Amounts receivable from the immediate parent company

Amounts due from the immediate parent company totalling £15,439,000 (2016: £14,344,000) represent trade receivables; they are non-interest bearing and are repayable on demand.

b) Amounts receivable from other Group companies

Amounts due from other Group companies totalling £112,000 (2016: £112,000) represent trade receivables; they are non-interest bearing and are repayable on demand.

10. Trade and other payables

| | 2017 £'000 | 2016 £'000 |
|---|---------------|---------------|
| Trade payables | 433 | 713 |
| Amounts payable to other Group companies ⁽ⁱ⁾ | 775 | 320 |
| Accruals | 2,240 | 4,001 |
| | 3,448 | 5,034 |

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

(i) Amounts payable to other Group companies consist of trade payables; they are non-interest bearing and are repayable on demand.

Notes to the financial statements (continued)

11. Provisions

| | At 1 July 2015 £'000 | Provided during the year £'000 | Utilised during the year £'000 | At 30 June 2016 £'000 | Provided during the year £'000 | Utilised during the year £'000 | At 30 June 2017 £'000 |
|---------------------------------------|-------------------------------|---|---|--------------------------------|---|---|--------------------------------|
| Current liabilities | | | | | | | |
| Lease related ⁽ⁱ⁾ | 3,644 | - | (198) | 3,446 | (3,339) | (107) | - |
| Retail Store Closures ⁽ⁱⁱ⁾ | - | - | - | - | 4,200 | (2,262) | 1,938 |
| | 3,644 | - | (198) | 3,446 | 861 | (2,369) | 1,938 |

(i) The Company no longer holds a provision at year end for costs in relation to the kiosks it had leased. The provision was initially made as it was deemed appropriate to provide for the amount that could be due in the event that as a result of VOA notification, local authorities have the right to claim unpaid rates backdated to 2010. The VOA has since introduced new proposals to limit backdating rating assessments to the 1st April 2015. The Company did not hold any store leases after April 2015, as such, the remaining provision was released.

(ii) As mentioned in the Business Review (Strategic and Director's Report, page 2), The Company conducted a performance review and chose to close 62 retail sales outlets. During the year the company provided for costs in relation to Redundancy, Professional fees and Travel expenses. The redundancies were estimated to impact 170 employees and provision has been utilised for costs incurred during the year. The Company holds a provision at year end as the timing of future charges and the final amount required to settle the potential liability remains uncertain.

12. Financial Instruments

Carrying value and fair value

The Company's principal financial instruments comprise trade receivables and trade payables. The accounting classification of each class of the Company's financial assets and financial liabilities is as follows:

| | Loans and receivables £'000 | Other liabilities £'000 | Total carrying value £'000 | Total fair values £'000 |
|-----------------------------|--------------------------------------|-------------------------------|-------------------------------------|----------------------------------|
| At 30 June 2017 | | | | |
| Trade and other payables | - | (3,448) | (3,448) | (3,448) |
| Trade and other receivables | 15,551 | - | 15,551 | 15,551 |
| At 30 June 2016 | | | | |
| Trade and other payables | - | (5,034) | (5,034) | (5,034) |
| Trade and other receivables | 14,456 | - | 14,456 | 14,456 |

The fair value of financial assets and financial liabilities 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.

Notes to the financial statements (continued)

13. 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.

Capital Risk Management

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

Credit risk

The Company's maximum exposure to credit risk on trade receivables is the carrying amounts disclosed in note 9.

Liquidity risk

The Company's financial liabilities are shown in notes 10 and 11.

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 twelve months £'000 | Between one and two years £'000 | Between two and five years £'000 | More than five years £'000 |
|---|-------------------------------------|---------------------------------------|--|----------------------------------|
| At 30 June 2017 | | | | |
| <i>Non-derivative financial liabilities</i> | | | | |
| Trade and other payables | 3,448 | - | - | - |
| At 30 June 2016 | | | | |
| <i>Non-derivative financial liabilities</i> | | | | |
| Trade and other payables | 5,034 | - | - | - |

14. Share capital

| | 2017 £ | 2016 £ |
|---|-----------|-----------|
| Allotted, called-up and fully paid | | |
| 5,001,055 (2016: 5,001,055) ordinary shares of £0.01 (2016: £0.01) each | 50,010 | 50,010 |

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

Notes to the financial statements (continued)

15. Shareholders' equity

| | 2017 £'000 | 2016 £'000 |
|-------------------|---------------|---------------|
| Share capital | 50 | 50 |
| Share premium | 1,040 | 1,040 |
| Retained earnings | 10,140 | 6,025 |

16. Transactions with related parties and major shareholders of Sky

a) Key management

The Company has a related party relationship with the Directors of the Company. At 30 June 2017, there were 3 (2016: 2) members of key managers, all of whom were Directors of the Company. Key management compensation is disclosed in note 5.

b) Transactions with parent company

The Group's treasury function is responsible for liquidity management across the Group's operations. It is standard practice for the Company to lend and borrow cash to and from subsidiaries as required.

The Company conducts business transactions with its immediate parent company, Sky UK Limited. In the year to 30 June 2017, the Company earned revenue of £39,404,000 (2016: £39,903,000) from Sky UK Limited. For details of amounts owed by and owed to Sky UK Limited, see notes 9 and 10.

c) Transactions with other Group companies

For details of amounts owed by and owed to subsidiaries, see note 9 and 10.

17. Ultimate parent undertaking

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

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