Appendix 4E Release to ASX under rule 4.3A

Full Year Information for Sky Network Television Limited for the year ended 30 June 2018

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Results for announcement to market

Sky Network Television Limited
Year ended on 30 June 2018 (In NZD)

Total operating revenues of $839.7 million have decreased $53.8 million from the previous year, which is a 6.0% decrease.

The underlying net profit of $119.3 million, adjusted for the impact of the $360 million goodwill impairment charge is an increase of 2.6% over the $116.3 million net profit reported in the previous year.

Net loss of $240.7 million compared to a net profit of $116.3 million from the previous year, which is a 306.9% decrease

Net loss after tax attributable to equity holders of $241 million compared to a prior year net profit after tax attributable to equity holders of $116 million, which is a 307.7% decrease.

The net loss includes an impairment charge of $360 million. The SKY board is required to assess the fair value of intangible assets at each reporting period and if this is determined to be less than the book value, then the assets are impaired. The impairment charge reduces the net book value of SKY's equity at 30 June 2018 to $1.03 billion ($2.64/share) compared to $1.33 billion ($3.41/share) at 30 June 2017. SKY shares closed at $2.60 per share on 30 June 2018.

This goodwill asset arose on the merger of Independent Newspapers Ltd ("INL") and SKY back in June 2005 and reflected the difference between the fair value of SKY's assets at the date of the merger and the price that INL shareholders agreed to exchange their shares in INL for SKY shares. This is a non-cash charge that has no impact on SKY's 2018 cash flows or on any of its bank covenants.

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Dividends	Amount per security	Franked amount per Security
Final Dividend (payable September 2018) Interim Dividend (paid March 2018)	7.5 cents 7.5 cents	N/A N/A
Final Dividend (paid September 2017)	12.5 cents	N/A
Previous corresponding period – Interim Dividend (paid March 2017)	15.0 cents	N/A
Previous corresponding period – Final Dividend (paid September 2016)	15.0 cents	N/A
Record date for determining entitlements to the Final Dividend	7 September 2018	

Brief explanation of any figures reported above, refer attached results commentary.

REACHING EVERY KIWI

SKY NETWORK TELEVISION LIMITED
Financial Statements June 2018

Chairman's Letter

2018 has been a significant year for SKY, with the board and management team setting and implementing a transformational strategy for the business.

SKY is building up a strong suite of online products to meet the needs of all New Zealanders, both now and in the future, while continuing to deliver to our core customer base, particularly those who don't yet have access to fast internet.

It's a careful balance, but strategically important. Our Sport partners know they can rely on SKY to deliver their content to all of their New Zealand fans, in ways that work for each individual. **They know SKY won't leave any fan behind**.

That is why we have made such a significant investment in the satellite for over 20 years, to ensure we have a robust and reliable platform. Delivering live sport to our nation of rugby, netball, cricket, league, golf, tennis, football and motorsport fans is a responsibility we do not take lightly.

There is no question that our industry is evolving into a world where internet delivery of content will dominate, and we are well placed to transition with it. SKY's investment in the Infinite Video Platform will allow us to offer a viewing experience that is dramatically different to today, for those customers who want it - and we are on track to deliver new products in the first half of 2019. They will join our existing online products like NEON and FAN PASS, providing SKY's great content to New Zealanders in ways and at price points that work for different customer segments.

These developments are timely, as the market continues to be highly competitive. Viewing habits have changed and continue to evolve, and we need to keep responding to those changes.

I am pleased to report that SKY has continued to deliver a solid profit while implementing the strategy. In the financial year to 30 June 2018, SKY's underlying net profit after tax is $119.3 million, an increase of 2.6% on the previous year.

You will note in the accounts that the SKY Board has agreed to reduce the carrying value of SKY's Goodwill asset from $1.43 billion to $1.07 billion. When that impairment charge is applied to the 2018 results, there is a net loss of $240.7 million for the year. Please note that this is a non-cash charge that has no impact on SKY's 2018 cash flows or any of our bank covenants.

Those of you who have been shareholders for some years may recall the background to SKY's Goodwill asset. It arose on the merger of Independent Newspapers Ltd (INL) and SKY back in June 2005, and reflected the difference between the fair value of SKY's assets at the time and the price that INL shareholders agreed to exchange their shares in INL for SKY shares. The SKY Board is required to assess the fair value of intangible assets at each reporting period, and this year decided to impair the asset. The impairment charge reduces the

Our Sport partners know they can rely on SKY to deliver their content to all of their New Zealand fans, in ways that work for each individual.

net book value of SKY equity at 30 June 2018 to $1.03 billion ($2.64/share) compared to $1.33 billion ($3.41/share) at 30 June 2017. SKY shares closed at $2.60/share on 29 June 2018.

I note a few other key aspects of the financial results:

- The Board was pleased to see management's focus on cost control, with $47 million of costs taken out of the business, offsetting the decline in revenue.
- SKY has 768,000 customers across satellite and OTT services. In our highly competitive market, it is worth reflecting that SKY's great content is in over 40% of New Zealand homes. That is significant penetration by Pay TV company standards around the world.
- While it will take time for the full effect of the March pricing and packaging changes to be seen, there was an improvement in churn in the second half of the year compared to the first half. SKY reported a 46,006 drop in subscribers to 31 December 2017, and 11,049 in the six months to 30 June 2018.
- Cash flow from operations is down from $245 million in FY17 to $214 million, mainly due to the timing of tax payments of $49 million in FY18 compared with $19 million in the previous year.

As I advised at the Interim Results in March, the dividend for the period is 7.5 cents per share. During the year debt was reduced from $299 million to $235 million, and the board believes that the company should continue to reduce debt to have the balance sheet strength to meet competitive challenges and to successfully negotiate renewal of key content deals.

One area of 'competition' which is difficult to address is the ongoing prevalence of online piracy. Piracy is a threat to everyone in the content industry, from the actors and producers of entertainment content, to sports teams, to distributors of content. There is no single fix for piracy, but we continue to seek stronger protection for our business and rights holders. We have had some success this year, with the District Court finding against the promoters of boxes pre-loaded with Kodi software that offer access to piracy websites.

In my annual letter I always thank John Fellet and SKY's staff and contractors for their work. This year is particularly poignant, with John announcing his intention to retire after 27 years with SKY, including 17 as Chief Executive.

In that time, John has led SKY from a business with three channels and 125 employees to the multi-platform, highly profitable company it is today. Innovations like MY SKY, which revolutionised the way New Zealanders viewed television, through to the suite of online products available now and in development, will be part of his significant legacy.

The Board and I are grateful for John's work and immense contribution to SKY.

I am pleased that John will continue to serve on the SKY Board once his successor is appointed. One of John's key strengths is his deep knowledge of content and his relationships with content providers, and we are fortunate to be able to continue to access this expertise at the board level.

Thank you for your support as a SKY shareholder, and I look forward to talking with you at the AGM.

The AGM will be held on 18 October 2018 at the Sofitel Hotel, 21 Viaduct Harbour Avenue, Auckland, commencing at 10am.

Peter Macourt

Peter Macourt
Chairman

Chief Executive's Letter

It is my pleasure to present to you my 17th annual shareholders' letter.

The financial statements will present a financial snapshot of the business. My goal, as always, is to give you a deeper insight into your company and the evolving industry it operates in. I will attempt to do this in a form that I hope suits the needs of the individual investor as well as the institutional one.

Financial year's results

I am pleased with the results of our latest financial year. Later in this letter I will dive deeper into challenging trends in the media field, but you should know that one of the key goals of your management team has been to take costs out of our traditional pay TV business while continuing to invest, build and absorb the start-up costs of our new internet and over-the-top (OTT) services. And doing it as we battle the content wars to ensure we have the content that is most important to New Zealanders.

I believe we are on the right path. Our underlying profit for the year is $119.3 million (excluding goodwill impairment), up from last year's $116.3 million. While we have seen declining subscriber numbers and revenues, we have cut $47 million of operating expenses out of the business and also lowered our capital spend by over $20 million.

Subscriber counts

In a seasonal business like SKY it is important to compare subscriber counts on a year-on-year basis. For the year ending 30 June 2018 the churn for the satellite business was 15.4% compared to 15.9% for the prior period. Churn was better in part because of the splitting of the Basic Package into a Starter Pack and an Entertainment Pack. It will take some time for the full impact of the changes to be clear, but we are pleased with a couple of early indicators. The spin down to the cheaper Starter tier by existing Basic Subscribers has been within budget and is currently at around 10%. The positive benefit of the move we think will come in years two and three when new subscribers wanting a cheaper Basic Package or a cheaper entry to Sport gradually come aboard.

An unexpected benefit of splitting the Basic into two packages has been the fact that the ARPU of new subscribers is only $9.84 lower than the ARPU from customers in the prior March to June period, meaning that new subscribers are spending their 'savings' on other SKY products such as SoHo and the SKY Movie Tier.

A year-on-year comparison shows the subscriber count down 57,055. To give you more detail, keep in mind that while we are down 8,583 on NEON subscribers, a year ago NEON was just starting season 7 of *Game of Thrones* which attracted significant interest. The much-anticipated next season of *Game of Thrones* will be back on NEON in the coming financial year. We also lost 8,269 subscribers as we shut down Fatso, our online DVD rental service. Another key piece of context is that last year's number for FAN PASS included 4,697 subscribers who could

It is our intention to leverage our content deals to offer new products and services to appeal to different customer segments.

buy the Sports Tier for one night or one week, an option we discontinued. And finally, the net loss figure recognises our change in strategy of discontinuing aggressive discount offers which had had the combined effect of bringing in marginal customers and at the same time irritating loyal subscribers.

New strategy to deal with the new reality

In the last few editions of this letter I have stressed the fact that media is one of the most unsettled industries. Let's go over the key reasons at play which have caused this.

Historically, the challenge was always to build a platform big enough in order to obtain the necessary scale. With the roll out and acceptance of fast broadband, getting into the content game has never been easier. This has allowed any company from a global tech giant to a niche content App-based provider to launch a service in New Zealand.

Competition has also come from non-media third parties who are starting to give away or subsidise content in packages with their normal product in an effort to "de-commoditize" their traditional offerings.

A few years ago these additional pipelines into the home would not have mattered because of a lack of content. We are now living in the age of 'peak content'. In 2012 there were 266 English scripted television series. I predicted that in 2018 that figure would jump to 534, and we are currently on track to do so.

And the content itself is evolving. For much of my life, in the animal kingdom of content, most programmes fit into four species: Sports, Movies, TV Series and News/Documentaries. Over the last 20 years there have been two important additions.

First there is a subsection of TV Series of what we call Prestige Drama. Prestige Drama was created by premium movie channels like HBO and Showtime in the United States. Think *Sopranos* and *Sex in the City*. The economic driver for this evolutionary change was that these movie channels were finding it harder to differentiate their channels. Movies had become more commoditized and formulaic as Hollywood made fewer of them and they tended to focus more on super heroes or extension of proven movie franchises (i.e. Mission Impossible 6).

Prestige Dramas are television series on steroids. They started about the year 2000. They have huge budgets, they have the pick of the best actors, writers and directors. Today when people are talking about a new television series they are probably talking about a Prestige Drama.

The other important new segment is Reality TV. Be it cooking, dating, dancing or home remodelling, no matter how mundane the endeavour is you can make a reality format out of it. The economic driver for reality TV has been the Free to Air Television industry. With their broad reach they can drive lucrative deals centred on product placements inside their programmes, from owners of hardware stores to cooking ingredients. As an added bonus, instead of paying actors, most contestants actually volunteer to participate.

There has also been an evolution in how content is being consumed. It used to be that a person's viewing history could indicate their age, sex and income levels. Now you can obtain even more insight on them based on how they consume their content. What device do they watch their programmes on? Do they binge-watch four episodes in one sitting or do they watch the latest episode each week on their MY SKY?

Over the years, SKY has attempted to serve as many customer interests as possible by adding additional linear channels. In a perfect world we would have a grab bag of channels that subscribers could pick and choose from. The reality is that rights have not worked that way. Historically, the suppliers of core channels would not allow their channel to be added unless SKY (and every other traditional pay TV platform) put them on the lowest entry level of Basic. It was impossible to customise our offering other than offering a Sports Tier or a Movie Tier. Each linear channel cost more and forced up our retail prices, but each channel we added attracted a higher number of subscribers .... until it didn't.

Ironically it was our goal to serve all of New Zealand that morphed our traditional business model into the object that has drawn the biggest complaint ….. "You are too expensive and have too many channels I do not watch".

With all the points made above it is easy to see why there has been more disruption in the media industry in the last five years than the previous 30 years. SKY has been disrupted more than any other media firm in New Zealand because we are the largest media firm in New Zealand. But our size also gives us an advantage in this transition.

We were delivering content to mobile phones a year before the first iPhone went to market. We sent content over the internet a year before Netflix had its first streaming customer. Our strategy remains the same. We are embracing the Internet and the benefits that it derives while continuing to super-serve our traditional subscribers, who for the most part are happy with the product they are getting from SKY. There are some 'technical gurus' who when interviewed are critical of SKY and believe we should abandon our 'antiquated' business model and cut the umbilical cord to the satellite. Nothing would please me more. We spend circa $50 million dollars a year for the satellite to ensure we can deliver SKY to every home across New Zealand. Over 30% of our subscribers are not even connected to Ultra-Fast Broadband.

Our biggest challenge in using the internet is with Sports delivery. We are not the only ones. Around the world there are repeated stories of failures with the internet delivery of big live sporting events. Viewership figures of sporting events on the internet are also often overstated. My favourite viewing statistic came out of the recent FIFA World Cup out of England. Reports suggested that 24.3 million people watched the England vs. Croatia semi-final match on traditional TV. Other reports said that 4.3 million watched it via streaming. That is not bad, it would lead you to believe that streaming was up to a very respectable 15% share. But when you dig deeper you realize the total figures are terribly misleading.

In England, the measurement for TV viewership is based on an average viewers per minute. The cumulative audience could have been much bigger as viewers dipped in and out of the coverage. The rigors of this formula have been fought out for years between Broadcasters and Advertising Agencies. On the other hand the viewership numbers for steaming defines a viewer as anyone who saw a stream for 3 seconds or more, and is cumulative. If we applied the same rigours of TV viewing to streaming, viewership would be 1.7 million or 6.5%. This figure is high enough for us to offer internet options, but not nearly high enough for us to jettison use of the Satellite. We stream millions of hours of viewing through the internet with NEON, SKY GO and FAN PASS. But we are conscious that it is still the Satellite that does most of the heavy lifting.

As mentioned, historically we attracted new market segments by launching new linear channels. Now it is our intention to leverage our content deals to offer new products and services to appeal to different customer segments. During much of 2015 and 2016 we slowed down our innovation track in order to keep our promise to Vodafone to launch their new TV platform, which has launched and is doing well. Since then we have had a flurry of new products and services to offer our customers. They include:

- Our subscription VOD service NEON offers a strong TV and Movies service. In order to attract those who are just interested in TV we recently created a TV-only option for $11.99 a month.
- FAN PASS offers access to the SKY Sport channels 1-4 on a monthly and six monthly basis via the internet. We have recently launched a special mobile-only deal for $15.99 a month for those customers who want to access our great sport channels just on their mobile phones.
- Our set top box's TV guide now goes up to 28 days when connected to the internet instead of just a week, greatly expanding your ability to review and record content in the future. The feature is also available on the SKY TV Guide App, allowing you to remotely record while on the go.
- A handy Restart function on a selection of our SKY Movies channels allows you to restart a movie if you've missed the beginning.
- We have installed an option of another 300 Movies for customers to order as part of an expansion of our Pay per View platform.
- For some time with our decoders at home, customers have had the ability to access 1000s of hours of previously played content as part of our Video on Demand option. Now we have extended this right to iPads and Mobile Phones as an extension to our SKY GO platform.
- The SKY Sport Highlight App is one of the most popular extra services we have offered. We have now made it better, with users able to personalise their own news feed to display only content from their favourite sport(s).
- Subscribers with children can now launch the *Cartoon Network Watch and Play* and *Nickelodeon Play Apps* for their children to use when they are not close to a TV set.

Looking ahead, you can expect to see some exciting product and service launches within the next 6-12 months.

Continuing SKY's innovation journey, we're investing further in internet-delivered TV through a new platform based on the Cisco Infinite Video Platform. Through new and existing devices, we'll enable a whole new experience, getting customers to the content they love more quickly, with personalised recommendations and a content-led, image-rich user experience.

We've always aggregated our own content with the world's leading entertainment brands. And we'll continue to do so through a combination of loved linear channels, on demand content and the best of global and local Apps.

We're also building on our voice capability, and will be able to allow seamless voice search across all content delivered via our enhanced TV service. And our new fluid viewing capability will mean your chosen content will follow you from the big screen to your mobile and tablet.

The Technology and Product teams are hard at work on these projects and we look forward to revealing them to you soon.

The content wars

Every now and then you will read a story about a piece of content we have lost by being out-bid by a competitor. Such stories usually include an interview with a media or technology expert (who, by the way, has never bought a piece of content in their life) predicting that this marks the start of SKY's decline or maybe we have badly misjudged the public interest in this particular piece of content.

The fact is, we get out-bid for content every year. In fact, if there is a year that goes by without an article regarding SKY losing a content deal you should attend the AGM to voice your concern.

In thinking about content it is important that one understands the difference between Price and Value. Price is the amount you pay for something but Value is what you get with that piece of content. The easiest thing to do is win content auctions. All you need to do is keep bidding until everyone else drops out. But you don't actually "win" the bid until you extract enough value to cover your costs. There are several contracts we have lost over the years, but seldom has the same company come back the next time and bid the same amount.

We could double every one of our bids and never lose anything, but before long we would have half the content with the same content costs.

The biggest advantage we have in bidding is our 28 year history of viewing statistics. When we lose bids they tend to be high profile events which for whatever reason have lost their way. The Oscars are a perfect example. As I write this, SKY has been informed that we were not the highest bidder for the Oscars in 2019. The Oscars are one of my favourite shows of the year, in part because I am in the industry. But for reasons I am not sure about, and in spite of our best efforts, we have seen the ratings decline four years in a row. I am not sure who won the bid. I am not sure their bid would have been as high if they had the benefit of our data and content insights.

The other advantage we have is the breadth of our content offerings. At any one time SKY has 4,500 programmes on the go contained in 3,000 different contracts. The biggest one is a sports contract, but it still only represents 23% of total sports viewing (which is represented by 791 different contracts), and less than 6% of overall viewing on SKY. And that is after taking out all the free-to-air viewing on the platform.

When our competitors pay above the value on some content it means that they have to bid under the value on other content. In every country the debate always rages on which platforms have the best content. In New Zealand there is seldom any debate around Movies, Sports and Basic Channels which SKY dominates. Lately I have heard the claims by competitors that they have the best TV series, but I disagree. Don't take my word for it. The Emmy nominations are in for 2018. SKY has the majority of the nominated shows, with over 200 nominations across 59 titles.

Write down of a goodwill asset

SKY recorded a write down of Goodwill of $360 million for the year ending 30 June 2018. Even with an accounting degree the concept of Goodwill is not always an easy one to follow.

In the last few years companies in the media sector in Australia have recorded accounting write downs. In one such example one company determined that content it had purchased on a long term deal no longer retained its value to viewers so it wrote down its accounting value. In another case a media company acquired another media company and determined after a few years that the company acquired had lost its value and wrote the purchase price down. You should be aware that the write down of SKY's Goodwill did not originate from your management devaluing any content or companies purchased.

SKY's accounting Goodwill originated when INL, the former newspaper concern, started buying shares in SKY eventually getting to a 78% shareholding. INL sold its newspapers and in 2005 entered into a merger with SKY. It is INL's purchase of SKY shares which created the Goodwill. After the merger transaction was complete, your company inherited the old balance sheet of INL which included the Goodwill figure.

As I mentioned at the start of this letter, the media industry is in transition more than ever before. This is reflected in the outcome of the impairment assessment and the write down of Goodwill of $360 million.

The write down is noncash, not tax deductible and does not affect the underlying profit nor does it affect any banking covenants.

And finally, if all goes according to plan this will be my last CEO letter. I have been with SKY 27 years. While the days have been long the decades have flown by. I have been blessed by having some of the best and most dedicated employees that any CEO in New Zealand could have. I also want to thank all Directors and particularly the Chairmen I have been able to serve under. I also believe the challenges from reporters, Investment Analysts and Investors throughout the years made me a better CEO. Likewise I have become good friends over the years with Sport Administrators and Content providers. We never allowed conflicting agendas to get in the way of the true goal, getting great content to mutual customers. And finally, to my long suffering family who over the years put up with missed family gatherings and two hour breaks on our vacations in order for me to sit in on phone conference calls, I would have not made it without your support.

John Fellet
Chief Executive Officer

2018 Financials

Financial overview

Summary

The net loss after tax for the year ended 30 June 2018 is $240.7 million compared to a net profit after tax of $116.3 million in the previous year.

The net loss includes an impairment charge of $360 million. If SKY's 2018 results are adjusted for the impact of this $360 million impairment charge, the underlying net profit after tax is $119.3 million, an increase of 2.6% over the $116.3 million net profit after tax reported in the year ended 30 June 2017.

The SKY board is required to assess the fair value of intangible assets at each reporting period and if this is determined to be less than the book value, then the assets are impaired. The impairment charge reduces the net book value of SKY's equity at 30 June 2018 to $1.03 billion ($2.64 per share) compared to $1.33 billion ($3.41 per share) at 30 June 2017. SKY shares closed at $2.60 per share on 30 June 2018. This goodwill asset arose on the merger of Independent Newspapers Ltd ("INL") and SKY back in June 2005 and reflected the difference between the fair value of SKY's assets at the date of the merger and the price that INL shareholders agreed to exchange their shares in INL for SKY shares. This is a non-cash charge that has no impact on SKY's 2018 cash flows or on any of its bank covenants.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") decreased by 2.2% to $285.8 million.

Operating expenses decreased by 7.9% due to cost saving initiatives being rolled out throughout the business, as well as higher programming costs in the previous year due to the cost of the Rio Summer Olympics.

The results are summarised as follows:

For the years ended 30 June

IN NZD MILLIONS	2018	2017	% inc/(dec)
Financial performance data			
Total revenue	839.7	893.5	(6.0)
Total operating expenses	553.9	601.2	(7.9)
EBITDA	**285.8**	**292.3**	**(2.2)**
Less			
Depreciation and amortisation	102.4	105.1	(2.6)
Net finance costs	17.5	19.6	(10.7)
Net profit before income tax and impairment of goodwill	**165.9**	**167.6**	**(1.0)**
Impairment of goodwill	360.0	–	n/a
Income tax expense	46.6	51.3	(9.2)
(Loss)/profit after tax	**(240.7)**	**116.3**	**(307.0)**

Revenue analysis

SKY's total revenue decreased to $839.7 million, as follows:

For the years ended 30 June IN NZD MILLIONS	2018	2017	% inc/(dec)
Satellite subscription revenue	681.2	725.1	(6.1)
Other subscription revenues	84.7	82.2	3.0
Total subscription revenue	**765.9**	**807.3**	**(5.1)**
Advertising	57.1	68.1	(16.2)
Installation and other revenue	16.7	18.1	(7.7)
Total other revenue	**73.8**	**86.2**	**(14.4)**
Total revenue	**839.7**	**893.5**	**(6.0)**

Satellite subscription revenue decreased by 6.1% to $681.2 million due to fewer satellite customers, a lower uptake of premium services (Sports and Movies), lower pay-per-view buys, and a reduction in the price of SKY's basic entry level package.

Other subscription revenue includes commercial revenue earned from SKY subscriptions at hotels, motels, restaurants and bars throughout New Zealand and revenue from other subscriptions services such as NEON and, FAN PASS. This revenue increased 3.0% to $84.7 million in 2018 due mainly to an increase in subscriber numbers for NEON and FAN PASS.

Advertising sales revenue decreased by 16.2% to $57.1 million in 2018 due to a general weakening of market conditions for advertising expenditure and high advertising sales in the prior year relating to the Rio Olympics.

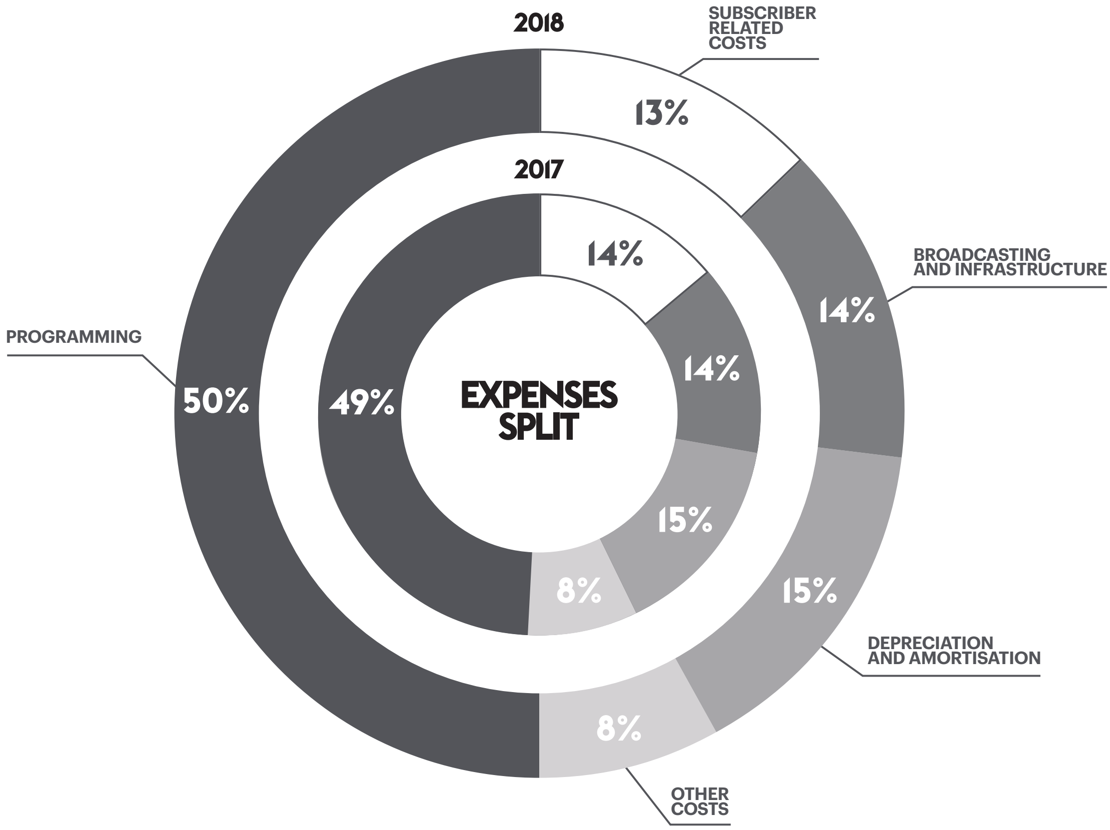
Installation and other revenues decreased by 7.7% to $16.7 million in 2018. This is mainly the result of fewer installations undertaken.

Financial overview

Expense analysis

A further breakdown of SKY's operating expenses for 2018 and 2017 is provided below:

IN NZD MILLIONS	2018	2018 % of revenue	2017	2017 % of revenue	% inc/(dec)
Programming	328.1	39.1	349.4	39.1	(6.1)
Subscriber related costs	83.1	9.9	100.2	11.2	(17.1)
Broadcasting and infrastructure	92.0	11.0	97.6	10.9	(5.7)
Other costs	50.7	6.0	54.0	6.0	(6.1)
Depreciation and amortisation	102.4	12.2	105.1	11.8	(2.6)
Total operating expenses	**656.3**	**78.2**	**706.3**	**79.0**	**(7.1)**



Programming costs comprise both the costs of purchasing programme rights and also programme operating costs. Programme rights costs include the costs of sports rights, pass-through channel rights (e.g. Disney Channel, Living Channel, etc.), movies (including PPV) and music rights. Programme operating costs include the costs of producing live sports events, satellite and fibre linking costs and in-house studio produced shows.

SKY's programming expenses have decreased by 6.1% and equated to 39.1% of revenue in 2018. This decrease is principally due to several "one-off" sporting events purchased in 2017 which included the rights costs of the Summer Olympics and the Americas Cup. A significant proportion of SKY's programme rights costs are in Australian dollars (AUD 27% of rights costs) and United States dollars (USD 52% of rights costs). This means the NZ dollar cost included in SKY's accounts is affected by the strength of the NZ dollar during a particular year and by SKY's foreign exchange hedging policy.

The board's policy is to hedge a minimum of 85% of the forecast exposures over 0 to 12 months, up to 50% of variable exposures over 13 to 24 months and up to 30% over 25 to 36 months. Fixed price contracts denominated in foreign currencies are fully hedged at the time of placing the order.

Subscriber related costs include the costs of servicing and monitoring equipment installed at subscribers' homes, indirect installation costs, the costs of SKY's customer service department, sales and marketing costs and general administrative costs associated with SKY's provincial offices.

In 2018, subscriber related costs decreased by 17.1% due to lower employee and contractor costs of supporting a smaller subscriber base, lower trouble calls and decoder repair costs.

Broadcasting and infrastructure costs consist of transmission and linking costs for transmitting SKY and Prime's television signals from its studios in Auckland to other locations in New Zealand and the costs of operating SKY's television stations at Mt Wellington and Albany. The costs of leasing seven transponders on the Optus D1 satellite are included, as is the cost of high definition television broadcasting. Broadcasting and infrastructure costs have decreased by 5.7% to $92.0 million due a decrease in employee costs.

Other costs mainly include advertising costs and the overhead costs relating to corporate management. These costs have decreased by 6.1% to $50.7 million due to a reduction in ad agency costs related to lower advertising revenue.

Depreciation and amortisation costs include depreciation charges for subscriber equipment including satellite dishes and decoders owned by SKY and fixed assets such as television station facilities. Depreciation and amortisation costs have decreased by 2.6% to $102.4 million due principally to an aging decoder base and fewer installations.

Finance costs, net have decreased by 10.7% to $17.5 million. The reduction in interest is due to reduced levels of debt. SKY's weighted average interest rates are as follows:

	2018	2017
Bank loans	5.58%	5.36%
Bonds	6.18%	6.04%
Combined weighted average	**5.79%**	**5.65%**

Capital expenditure

SKY's capital expenditure, on a cash basis over the last five years is summarised as follows:

IN NZD MILLIONS	2018	2017	2016	2015	2014
Subscriber equipment	9.2	19.7	63.8	22.8	20.6
Installation costs	18.8	29.3	32.6	29.7	36.9
Other	30.2	30.7	32.4	63.0	35.5
Total capital expenditure	**58.2**	**79.7**	**128.8**	**115.5**	**93.0**

Capital expenditure decreased by $21.5 million in 2018 to $58.2 million.

The reduction in capital expenditure in both subscriber equipment and installation costs is reflective of the significant expenditure that was made in prior years when the new internet enabled decoders were rolled out to replace the old legacy digital decoders and fewer installations.

Other capital expenditure of $30.2 million included $14.6 million of software additions, $2.2 million of other plant and equipment, as well as $13.4 million of capital work in progress.

Financial trends

Income statement – five year summary

IN NZD 000	2018	2017	2016	2015	2014
For the year ended 30 June					
Total revenue	839,729	893,485	928,200	927,525	909,001
Total operating expenses (1)	553,919	601,145	602,914	547,756	529,961
EBITDA (2)	**285,810**	**292,340**	**325,286**	**379,769**	**379,040**
Less					
Depreciation, amortisation and impairment (3)	462,414	105,148	100,241	119,194	126,143
Net interest expense and financing charges	17,576	20,470	19,684	21,696	27,097
Unrealised (gains)/losses on currency and other	(66)	(850)	371	–	1,293
Net (loss)/profit before income tax (3)	**(194,114)**	**167,572**	**204,990**	**238,879**	**224,507**

Balance sheet – five year summary

IN NZD 000	2018	2017	2016	2015	2014
As at 30 June					
Property, plant, equipment and non-current intangibles	268,925	301,008	331,157	299,243	302,929
Goodwill	1,065,331	1,425,331	1,425,331	1,425,331	1,426,393
Total assets	1,503,002	1,887,200	1,943,564	1,942,021	1,865,369
Interest bearing loans and liabilities	235,344	298,663	348,085	350,763	387,191
Working capital (4)	(51,708)	(54,035)	(35,230)	(36,285)	(48,325)
Total liabilities	476,315	559,322	612,641	604,818	624,205
Total equity	1,026,687	1,327,878	1,330,923	1,337,203	1,241,164

Cash flow – five year summary

IN NZD 000	2018	2017	2016	2015	2014
As at 30 June					
Net cash from operating activities	213,613	244,536	275,844	282,915	305,314
Net cash used in investing activities	(58,194)	(79,640)	(133,635)	(115,416)	(93,672)
Free cash flow available to shareholders	155,419	164,896	142,209	167,499	211,642

(1) Exclusive of depreciation, amortisation and impairment.

(2) Net (loss)/profit before income tax, interest expense, depreciation, amortisation and impairment, unrealised gains and losses on currency and interest rate swaps.

(3) Includes goodwill impairment of $360 million (refer note 9).

(4) Working capital excludes current borrowing, bonds, derivative financial instruments and available for sale investment.

Depreciation and capital expenditure

IN NZD 000	2018	2017	2016	2015	2014
Depreciation, amortisation and impairment (1)	102,414	105,148	100,241	119,194	126,143
Capital expenditure	58,200	79,700	128,800	115,500	93,000

History of dividend payments

BY CALENDAR YEAR IN CENTS PER SHARE	2018	2017	2016	2015	2014
Interim dividend (paid in March)	7.5	15.0	15.0	15.0	14.0
Final dividend (paid in September)	–	12.5	15.0	15.0	15.0
Total ordinary dividend	**7.5**	**27.5**	**30.0**	**30.0**	**29.0**

Subscriber base

	2018	2017	2016	2015	2014
Total subscribers	767,727	824,782	852,679	851,561	865,055
Average monthly revenue per residential subscriber (2)	76.34	78.82	78.63	79.54	77.52
Gross churn (3)	15.4%	15.9%	17.5%	14.5%	13.2%

(1) Excludes goodwill impairment of $360 million.

(2) Years 2016-2018 include IGLOO, NEON and FAN PASS not included in earlier periods.

(3) Gross churn refers to the percentage of residential subscribers over the 12-month period ended on the date shown who terminated their satellite pay TV subscription net of existing subscribers who transferred their service to new residences during the period.

Directors' responsibility statement

The directors of Sky Network Television Limited (the Group) are responsible for ensuring that the financial statements of the Group present fairly the financial position of the Group as at 30 June 2018 and the results of its operations and cash flows for the year ended on that date.

The directors consider that the financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and that all relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

The directors consider they have taken adequate steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors have pleasure in presenting the financial statements of the Group for the year ended 30 June 2018.

The board of directors of Sky Network Television Limited authorise these financial statements for issue on 23 August 2018.

For and on behalf of the board of directors

Peter Macourt
Chairman

Susan Paterson
Director

23 August 2018

Consolidated statement of comprehensive income

For the year ended 30 June 2018

IN NZD 000	Notes	2018	2017
Total revenue	2	**839,729**	**893,485**
Expenses			
Programming		328,109	349,426
Subscriber related costs		83,168	100,161
Broadcasting and infrastructure		91,982	97,578
Depreciation and amortisation	3	102,414	105,148
Other costs		50,660	53,980
		656,333	**706,293**
Operating profit before impairment		**183,396**	**187,192**
Impairment of goodwill	3	360,000	–
Operating (loss)/profit		**(176,604)**	**187,192**
Finance costs, net	4	17,510	19,620
(Loss)/profit before tax		**(194,114)**	**167,572**
Income tax expense	5	46,560	51,228
(Loss)/profit for the year		**(240,674)**	**116,344**
Attributable to:			
Equity holders of the Company	13	(240,956)	116,026
Non-controlling interests		282	318
		(240,674)	**116,344**
Earnings per share			
Basic and diluted (loss)/earnings per share (cents)	13	(61.92)	29.82
OTHER COMPREHENSIVE INCOME			
(Loss)/profit for the year		(240,674)	116,344
Items that may be reclassified subsequently to profit and loss			
Cash flow hedges		25,131	(5,486)
(Loss)/gain on available for sale investments	1	(646)	2,147
Income tax effect		(6,856)	935
Other comprehensive income/(loss) for the year, net of income tax		**17,629**	**(2,404)**
Total comprehensive (loss)/income for the year		**(223,045)**	**113,940**
Attributable to:			
Equity holders of the Company		(223,327)	113,622
Non-controlling interest		282	318
		(223,045)	**113,940**

Consolidated balance sheet

As at 30 June 2018

IN NZD 000	Notes	2018	2017
Current assets			
Cash and cash equivalents		4,694	5,444
Trade and other receivables	6	63,117	69,475
Available for sale investment	1	6,334	–
Programme rights inventory	7	78,378	79,003
Derivative financial instruments	12	9,917	176
		162,440	**154,098**
Non-current assets			
Property, plant and equipment	8	209,582	238,066
Intangible assets	9	1,124,674	1,488,273
Available for sale investment	1	–	6,552
Derivative financial instruments	12	6,306	211
		1,340,562	**1,733,102**
Total assets		**1,503,002**	**1,887,200**
Current liabilities			
Interest bearing loans and borrowings	11	1,040	–
Trade and other payables	10	186,054	186,187
Income tax payable		11,843	21,770
Derivative financial instruments	12	595	9,038
		199,532	**216,995**
Non-current liabilities			
Interest bearing loans and borrowings	11	234,304	298,663
Deferred tax	5	40,826	37,683
Derivative financial instruments	12	1,653	5,981
		276,783	**342,327**
Total liabilities		**476,315**	**559,322**
Equity			
Share capital	13	577,403	577,403
Hedging reserve	13	9,032	(9,062)
Retained earnings		438,998	758,247
Total equity attributable to equity holders of the Company		**1,025,433**	**1,326,588**
Non-controlling interest		1,254	1,290
Total equity		**1,026,687**	**1,327,878**
Total equity and liabilities		**1,503,002**	**1,887,200**

Peter Macourt
Chairman

Susan Paterson
Director

For and on behalf of the board 23 August 2018.

Consolidated statement of changes in equity

For the year ended 30 June 2018

		ATTRIBUTABLE TO OWNERS OF THE PARENT					
IN NZD 000	Notes	Share capital	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total equity
For the year ending 30 June 2018							
Balance at 1 July 2017		577,403	(9,062)	758,247	1,326,588	1,290	1,327,878
(Loss)/profit for the year		–	–	(240,956)	(240,956)	282	(240,674)
Loss on available for sale investment, net of tax	1	–	–	(465)	(465)	–	(465)
Cash flow hedges, net of tax	13	–	18,094	–	18,094	–	18,094
Total comprehensive (loss)/income for the year		**–**	**18,094**	**(241,421)**	**(223,327)**	**282**	**(223,045)**
Transactions with owners in their capacity as owners							
Dividend paid		–	–	(77,828)	(77,828)	(318)	(78,146)
Supplementary dividends		–	–	(11,113)	(11,113)	–	(11,113)
Foreign investor tax credits		–	–	11,113	11,113	–	11,113
		–	**–**	**(77,828)**	**(77,828)**	**(318)**	**(78,146)**
Balance at 30 June 2018		**577,403**	**9,032**	**438,998**	**1,025,433**	**1,254**	**1,026,687**
For the year ending 30 June 2017							
Balance at 1 July 2016		577,403	(5,112)	757,417	1,329,708	1,215	1,330,923
Profit for the year		–	–	116,026	116,026	318	116,344
Gain on available for sale investment, net of tax	1	–	–	1,546	1,546	–	1,546
Cash flow hedges, net of tax	13	–	(3,950)	–	(3,950)	–	(3,950)
Total comprehensive income for the year		**–**	**(3,950)**	**117,572**	**113,622**	**318**	**113,940**
Transactions with owners in their capacity as owners							
Dividend paid		–	–	(116,742)	(116,742)	(243)	(116,985)
Supplementary dividends		–	–	(15,330)	(15,330)	–	(15,330)
Foreign investor tax credits		–	–	15,330	15,330	–	15,330
		–	**–**	**(116,742)**	**(116,742)**	**(243)**	**(116,985)**
Balance at 30 June 2017		**577,403**	**(9,062)**	**758,247**	**1,326,588**	**1,290**	**1,327,878**

Consolidated statement of cash flows

For the year ended 30 June 2018

IN NZD 000	Notes	2018	2017
Cash flows from operating activities			
(Loss)/profit before tax		(194,114)	167,572
Adjustments for:			
Depreciation and amortisation	3	102,414	105,148
Impairment of goodwill	3	360,000	–
Unrealised foreign exchange loss	4	7	(212)
Interest expense	4	17,756	21,010
Bad debts and movement in provision for doubtful debts	3	1,185	1,732
Other non-cash items		83	415
Movement in working capital items:			
(Decrease)/increase in receivables		439	(2,204)
(Decrease) in payables		(9,320)	(7,749)
Decrease in programme rights		625	762
Cash generated from operations		**279,075**	**286,474**
Interest paid		(15,766)	(22,704)
Bank facility fees paid		(696)	(725)
Income tax paid		(49,000)	(18,509)
Net cash from operating activities		**213,613**	**244,536**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		29	42
Acquisition of property, plant, equipment and intangibles		(58,223)	(79,682)
Net cash used in investing activities		**(58,194)**	**(79,640)**
Cash flows from financing activities			
Repayment of borrowings – bank loan	11	(166,000)	(111,000)
Advances received – bank loan	11	97,000	261,000
Vendor finance received	11	2,386	–
Repayment of other borrowings	11	(296)	–
Repayment of borrowings – bond		–	(200,000)
Dividend paid to minority shareholders		(318)	(243)
Dividends paid		(88,941)	(132,072)
Net cash used in financing activities		**(156,169)**	**(182,315)**
Net decrease in cash and cash equivalents		(750)	(17,419)
Cash and cash equivalents at beginning of year		5,444	22,863
Cash and cash equivalents at end of year		**4,694**	**5,444**

Notes to the consolidated financial statements

For the year ended 30 June 2018

1. General information

This section sets out the Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to one note, the policy is described in the note to which it relates.

SKY Network Television Limited (SKY) is a Company incorporated and domiciled in New Zealand. The address of its registered office is 10 Panorama Road, Mt Wellington, Auckland, New Zealand. The consolidated financial statements of the Group for the year ended 30 June 2018 comprise the Company, Sky Network Television Limited and its subsidiaries.

SKY is a company registered under the Companies Act 1993 and is a reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements of the Group have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules.

The Group's primary activity is to operate as a provider of multi-channel, pay television and free-to-air television services in New Zealand.

These financial statements were authorised for issue by the Board on 23 August 2018.

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The Group is a for-profit entity for the purpose of complying with NZ GAAP. The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS. The consolidated financial statements also comply with International Financial Reporting Standards (IFRS).

These financial statements are prepared on the basis of historical cost except where otherwise identified.

The financial statements are presented in New Zealand dollars.

Group structure

The Group has a majority share in the following subsidiaries, all of which are incorporated in and have their principal place of business in New Zealand:

Name of entity	Principal activity	Parent	Interest held	
			2018	2017
SKY DMX Music Limited	Commercial Music	SKY	50.50%	50.50%
SKY Ventures Limited	Investment	SKY	100.00%	100.00%
Media Finance Limited	Non-trading	SKY	100.00%	100.00%
Outside Broadcasting Limited	Broadcasting services	SKY	100.00%	100.00%
Screen Enterprises Limited (1)	Non-trading	SKY	100.00%	100.00%
Igloo Limited (2)	Non-trading	SKY	100.00%	100.00%
Believe It Or Not Limited	Entertainment quizzes	SKY	51.00%	51.00%

(1) Ceased trading during the current year

(2) Ceased trading during the prior year

In March 2016 SKY Ventures acquired a 15.78% interest in 90 Seconds Pty Limited (a cloud video production company) for a cost of $4.8 million. In the following year the investment was diluted to 13.54%. This investment is classified as an available for sale financial asset, recognised initially and subsequently at fair value, with changes in fair value recognised in other comprehensive income. The fair value as at 30 June 2018 was $6.3 million (30 June 2017 $6.6 million). The investment has been reclassified to current assets due to its expected realisation in the coming year (refer note 17).

Notes to the consolidated financial statements (CONTINUED)

For the year ended 30 June 2018

1. General information (CONTINUED)

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiaries.

The acquisition method of accounting is used to account for the acquisition of subsidiaries and businesses by the Group. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair value of the assets transferred and the liabilities incurred. Each identifiable asset and liability is generally measured at its acquisition date fair value except if another NZ IFRS requires another measurement basis. The excess of the consideration of the acquisition and the amount of any non-controlling interest in the acquired company, less the Group's share of the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed is recognised as goodwill. Acquisition related costs are expensed as incurred.

Subsidiaries

Subsidiaries are entities that are controlled, either directly or indirectly, by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns from its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which control ceases.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as are unrealised gains unless the transaction provides evidence of an impairment of the asset transferred.

Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

New standards, amendments and interpretations

The new amendment to NZ IAS 7 effective for the first time for periods beginning on or after 1 January 2017 aims to improve information about changes in liabilities arising from financing activities. This information is provided in Note 11 and provides a reconciliation of the opening and closing carrying amounts for each item for which cash flows have been classified as financial activities and includes changes in financing cash flows comprising drawdowns and repayments and other non-cash changes for example new finance leases and changes in fair value.

The Group is currently assessing the impact of the following new standards on its financial position, performance and cash flows:

NZ IFRS 9 "Financial Instruments" (effective date: 1 January 2018)

NZ IFRS 9 simplifies the model for classifying and recognising financial instruments and aligns hedge accounting more closely with common risk management practices. Changes in own credit risk in respect of liabilities designated at fair value through profit or loss can now be presented within OCI. This change can be adopted early without adopting NZ IFRS 9. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as it the case under NZ IAS 39. It is likely that this will result in earlier recognition of impairment losses.

NZIFRS 9 will impact the classification and measurement of the Group's financial instruments and will require certain additional disclosures and amended hedge documentation. The changes to recognition and measurement of financial instruments and changes to hedge accounting rules are not currently considered likely to have any major impact on the Group's current accounting treatment or hedging activities. Existing hedge documentation has been updated to ensure compliance with NZ IFRS 9.

NZ IFRS 15 "Revenue from contracts with customers" (effective date: 1 January 2018)

NZ IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual periods beginning on or after 1 January 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group will adopt NZ IFRS 15 effective 1 July 2018 with full retrospective application.

The Group has carried out a review of its current sources of revenue with a view to determining whether the requirements of NZ IFRS 15 will result in changes to the Group's current reporting practices, whether those changes will affect the Group's current reporting systems and whether any reclassifications will be required. The Group has identified several sources of revenue which may be affected all of which are unlikely to have a significant effect on the Group's reported revenue or net results. These include installation revenue, customer acquisition costs and discounted services. In addition a review of the agency versus principal considerations in certain third party contracts has indicated that the Group will record revenue on the basis that its relationship with the end customer is as a principal. Revenue and expenses are expected to increase by approximately $11.2 million in the year ending 30 June 2019 and in the comparative period with no effect on the net result, due to reclassification of discounts or commission.

No significant changes to existing systems and processes have been identified as necessary to comply with NZ IFRS 15.

NZ IFRS 16 "Leases" (effective date: 1 January 2019)

NZ IFRS 16 will primarily change lease accounting for lessees; lease agreements will give rise to the recognition of an 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 must be recognised on the lease liability. The new standard will be substantively different for current operating leases where rental charges are currently recognised on a straight-line basis and no lease asset or lease obligation is recognised. The standard is effective for accounting periods beginning on or after 1 January 2019. The Group intends to adopt the standard from 1 July 2019.

The Group has assessed the impact of applying NZ IFRS 16 and determined the adjustments to recognise right of use assets and corresponding lease liabilities are likely to be significant. Most of this value relates to the Optus transponder lease which is currently treated as an operating lease for accounting purposes. The estimated ratio of net liabilities to total assets would fall from approximately 3.3 to 3.0.

The adoption of NZ IFRS 16 will not have any significant effect on the Group's banking covenants since adjustment is already in place to treat Optus as if it was a finance lease contract.

Other than NZ IFRS 9 "Financial Instruments', NZ IFRS 15 "Revenue from contracts with customers" and NZ IFRS 16 "Leases", there are no new standards, amendments or interpretations that have been issued and effective, or not yet effective, that are expected to have a significant impact on the Group.

Goods and services tax (GST)

The consolidated statement of comprehensive income and consolidated statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the consolidated balance sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to SKY's group of executive directors who are the chief operating decision-makers. SKY's group of executive directors is responsible for allocating resources and assessing performance of the operating segments. SKY operates in a single business segment; the provision of multi-channel television services in New Zealand.

2. Revenue

IN NZD 000	2018	2017
Residential satellite subscriptions	681,231	725,066
Other subscriptions	84,728	82,247
Advertising	57,045	68,084
Other revenue	16,725	18,088
	839,729	**893,485**

Revenue comprises the fair value of the sales of goods and services, net of goods and services tax and is recognised as follows:

Subscription revenue – over the period to which the subscription relates; unearned subscriptions and deferred revenues are revenues that have been invoiced relating to services not yet performed, principally subscriptions paid in advance (refer note 10);

Advertising revenue – over the period in which the advertising is screened; and

Other revenue – when the product has been delivered to the customer or retailer or in the accounting period in which the actual service is provided. Other revenue comprises revenues received from installation of decoders and other non-subscriber related revenue.

Notes to the consolidated financial statements (CONTINUED)

For the year ended 30 June 2018

3. Operating expenses

(Loss)/profit before tax includes the following separate expenses/(credits):

IN NZD 000	Notes	2018	2017
Depreciation, amortisation and impairment			
Depreciation of property, plant and equipment [1]	8	81,224	87,570
Amortisation of intangibles	9	21,190	17,578
Impairment of goodwill	9	360,000	–
Total depreciation, amortisation and impairment		**462,414**	**105,148**
Bad and doubtful debts			
Movement in provision	6	(290)	165
Net write-off	6	1,185	1,732
Total bad and doubtful debts		**895**	**1,897**
Fees paid to external auditors			
Audit fees [2]		409	336
Other services			
Assurance report on regulatory returns		2	3
Other services [3]		–	17
Advisory services			
Treasury		28	27
Total fees to external auditors		**439**	**383**
Professional fees in relation to proposed acquisition of Vodafone NZ		21	2,145
Employee costs [4]		92,696	97,040
KiwiSaver employer contributions		2,180	2,251
Donations		251	413
Operating lease and rental expenses		36,152	37,939
Related party transactions			
Remuneration of key management personnel (included in employee costs)		11,415	11,949
Directors' fees		615	555
Dividends paid to directors and key management personnel [5]		54	56
Total related party transactions		**12,084**	**12,560**

(1) The majority of depreciation and amortisation relates to broadcasting assets (refer note 8 and 9).

(2) The audit fee includes the fee for both the annual audit of the financial statements and the review of the interim financial statements.

(3) Other services comprise reporting on trust deed requirements and on matters related to proposed acquisition of Vodafone NZ.

(4) All employee costs are short-term employee benefits.

(5) The Group's directors and key management personnel collectively had shareholdings of 268,988 shares (2017: 186,778 shares) which carry the normal entitlement to dividends. Share transactions undertaken by directors can be found as part of the statutory disclosures in the annual report.

Leases under which all the risk and benefits of ownership are substantially retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the periods the amounts are payable.

Employee entitlements to salaries and wages and annual leave, to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on remuneration rates that the Group expects to pay.

Bonus plans are recognised as a liability and an expense for bonuses based on a formula that takes into account the economic value added by employees during the reporting period. The Group recognises this provision where contractually obliged or where there is a past practice that has created a constructive obligation.

4. Finance costs, net

IN NZD 000	2018	2017
Finance income		
Interest income	(312)	(540)
	(312)	**(540)**
Finance expense		
Interest expense on bank loans	10,395	10,663
Interest expense on bonds	6,179	9,064
Finance lease interest	50	–
Amortisation of bond costs	272	361
Bank facility finance fees	860	922
Total interest expense	**17,756**	**21,010**
Unrealised exchange loss – foreign currency payables	2,520	812
Unrealised exchange gain – foreign currency hedges	(2,513)	(1,024)
Realised exchange loss/(gain) – foreign currency payables	59	(648)
Realised exchange loss – foreign currency hedges	–	10
	17,510	**19,620**

Interest income is recognised on a time-proportion basis using the effective interest method, which is the rate that exactly discounts estimated future cash flow receipts through the expected life of the financial asset to that asset's net carrying amount.

Borrowing costs directly attributable to acquisition, construction or production of an asset that takes a substantial period of time to prepare for its intended use are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurs with the borrowing of funds.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary items carried at fair value that are denominated in foreign currencies are translated to New Zealand dollars at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in profit and loss except where hedge accounting is applied and foreign exchange gains and losses are deferred in other comprehensive income.

Notes to the consolidated financial statements (CONTINUED)

For the year ended 30 June 2018

5. Taxation

Income tax expense

The total charge for the year can be reconciled to the accounting (loss)/ profit as follows:

IN NZD 000	2018	2017
(Loss)/profit before tax	(194,114)	167,572
Prima facie tax (credit)/expense at 28%	(54,352)	46,920
Non deductible expenses [1]	101,098	771
Prior year adjustment	(132)	3,537
Other	(54)	–
Income tax expense	**46,560**	**51,228**
Allocated between		
Current tax payable	50,392	48,658
Deferred tax	(3,832)	2,570
Income tax expense	**46,560**	**51,228**

Imputation credits

IN NZD 000	2018	2017
Imputation credits available for subsequent reporting periods based on a tax rate of 28%	100,903	80,158

(1) $100.8 million relates to goodwill impairment.

The above amounts represent the balance of the imputation account as at the end of the reporting period adjusted for:

- Imputation credits that will arise from the payment of the amount of the provision for income tax;
- Imputation debits that will arise from the payment of dividends (excluding the final dividend announced in August).

Availability of these credits is subject to continuity of ownership requirements.

Current income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax, except to the extent that it relates to items recognised directly in other comprehensive income, in which case the tax expense is also recognised in other comprehensive income. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in profit and loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using the rates that have been enacted or substantively enacted by the balance date.

Deferred tax liabilities and (assets)

The following are the major deferred tax liabilities and assets and the movements thereon during the current and prior reporting periods.

IN NZD 000	Notes	Fixed assets	Leased assets	Other	Recognised directly in equity	Total
For the year ended 30 June 2018						
At 1 July 2017		16,168	27,697	(3,259)	(2,923)	37,683
NZ IAS 39 hedging adjustment recognised through other comprehensive income	13	–	–	–	7,037	7,037
Revaluation of available for sale investment recognised through other comprehensive income	1	–	–	–	(62)	(62)
(Credited)/charged to profit and loss		1,375	(5,333)	126	–	(3,832)
Balance at 30 June 2018		**17,543**	**22,364**	**(3,133)**	**4,052**	**40,826**
Deferred tax reversing within 12 months		(5,621)	(7,142)	(3,133)	2,786	(13,110)
Deferred tax to reverse after more than 12 months		23,164	29,506	–	1,266	53,936
		17,543	**22,364**	**(3,133)**	**4,052**	**40,826**
For the year ended 30 June 2017						
At 1 July 2016		11,916	31,117	(4,997)	(1,989)	36,047
NZ IAS 39 hedging adjustment recognised through other comprehensive income	13	–	–	–	(1,535)	(1,535)
Revaluation of available for sale investment recognised through other comprehensive income	1	–	–	–	601	601
(Credited)/charged to profit and loss		4,252	(3,420)	1,738	–	2,570
Balance at 30 June 2017		**16,168**	**27,697**	**(3,259)**	**(2,923)**	**37,683**
Deferred tax reversing within 12 months		701	(6,950)	(3,140)	(1,404)	(10,793)
Deferred tax to reverse after more than 12 months		15,467	34,647	(119)	(1,519)	48,476
		16,168	**27,697**	**(3,259)**	**(2,923)**	**37,683**

Certain deferred tax assets and liabilities have been offset as allowed under NZ IAS 12 where there is a legally enforceable right to set off current tax assets against current tax liabilities and where the deferred tax assets and liabilities are levied by the same taxation authority.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction neither affects accounting nor taxable profit or loss. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Key estimates and assumptions

Deferred tax assets are recognised for unused tax losses and other deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and other deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based upon the likely timing and level of future taxable profits. No deferred tax asset has been recognised in relation to Igloo Limited's (IGLOO) accumulated losses of $12,150,000 (30 June 2017: $12,150,000). Those tax losses can be carried forward for use against future taxable profits of IGLOO subject to meeting the requirements of the income tax legislation including shareholder continuity.

Notes to the consolidated financial statements (CONTINUED)

For the year ended 30 June 2018

6. Trade and other receivables

IN NZD 000	Notes	2018	2017
Trade receivables		56,575	61,529
Less provision for impairment of receivables		(636)	(926)
Trade receivables – net		**55,939**	**60,603**
Other receivables		1,300	2,739
Prepaid expenses		5,878	6,133
Balance at end of year		**63,117**	**69,475**
Deduct prepaid expenses		(5,878)	(6,133)
Balance financial instruments	14	**57,239**	**63,342**

	2018		2017	
IN NZD 000	**Gross**	**Impairment**	**Gross**	**Impairment**
Residential subscribers	32,837	504	34,390	380
Commercial subscribers	5,213	18	5,217	38
Wholesale customers	11,592	–	9,860	–
Advertising	5,197	27	9,219	61
Commercial music	98	21	107	37
Other	1,638	66	2,736	410
	56,575	**636**	**61,529**	**926**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Collectability of trade receivables is reviewed on an on-going basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence, such as default or delinquency in payments, that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is expensed in profit and loss.

As at 30 June, the ageing analysis of trade receivables is as follows:

	2018			2017		
IN NZD 000	**Neither past due nor impaired**	**Past due but not impaired**	**Impaired**	**Neither past due nor impaired**	**Past due but not impaired**	**Impaired**
Not past due	49,504	–	–	54,013	–	–
Past due 0-30 days	–	5,093	26	–	5,344	80
Past due 31-60 days	–	1,115	15	–	897	23
Past due 61-90 days	–	167	213	–	203	197
Greater than 90 days	–	60	382	–	146	626
	49,504	**6,435**	**636**	**54,013**	**6,590**	**926**

Accounts receivables relating to advertising sales are individually impaired when it is clear that the debt is unlikely to be recovered. Impairment for all other trade receivables is calculated as a percentage of overdue subscribers in various time buckets based on historical performance of subscriber payments.

Movements in the provision for impairment of receivables were as follows:

IN NZD 000	Notes	2018	2017
Opening balance		926	763
Charged during the year	3	895	1,897
Utilised during the year		(1,185)	(1,734)
Closing balance		**636**	**926**

The creation and release of the provision for impaired receivables has been included in subscriber related costs in profit and loss. Amounts charged to the allowance account are generally written off when there is no expectation of receiving additional cash. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable. The Group holds collateral in the form of deposits for commercial customers.

7. Programme rights inventory

IN NZD 000	2018	2017
Opening balance	79,003	79,765
Acquired during the year	267,829	286,278
Charged to programming expenses	(268,454)	(287,040)
Balance at end of year	**78,378**	**79,003**

Programme rights are recognised at cost, as an asset in the consolidated balance sheet provided the programme is available and the rights period has commenced at the balance date. Long-term sports rights are executory contracts as the obligation to pay for the rights does not arise until the event has been delivered. Most sports rights contracts are, however, payable in advance and as such, are recognised only to the extent of the portion not yet utilised. Rights are expensed over the period they relate to on a proportionate basis depending on the type of programme right and the expected screening dates, generally not exceeding twelve months. Any rights not expected to be utilised are written off during the period.

Notes to the consolidated financial statements (CONTINUED)

For the year ended 30 June 2018

8. Property, plant and equipment

IN NZD 000	Land, buildings and leasehold improvements	Broadcasting and studio equipment	Decoders and associated equipment	Capitalised installation costs	Other plant and equipment	Projects under development	Total
For the year ending 30 June 2018							
Cost							
Balance at 1 July 2017	64,271	139,786	352,918	306,246	81,631	5,228	950,080
Transfer between categories	–	962	–	–	906	(1,868)	–
Transfer to software assets	–	–	–	–	–	(3,032)	(3,032)
Additions	364	550	8,581	18,789	4,850	22,967	56,101
Disposals	(53)	(2,005)	(29,779)	(37,825)	(10,325)	–	(79,987)
Balance at 30 June 2018	**64,582**	**139,293**	**331,720**	**287,210**	**77,062**	**23,295**	**923,162**
Accumulated depreciation							
Balance at 1 July 2017	22,694	122,987	278,757	228,875	58,701	–	712,014
Depreciation for the year	2,112	8,846	30,896	31,459	7,911	–	81,224
Disposals	(53)	(2,005)	(29,554)	(37,822)	(10,224)	–	(79,658)
Balance at 30 June 2018	**24,753**	**129,828**	**280,099**	**222,512**	**56,388**	**–**	**713,580**
Net book value at 30 June 2018	**39,829**	**9,465**	**51,621**	**64,698**	**20,674**	**23,295**	**209,582**
For the year ending 30 June 2017							
Cost							
Balance at 1 July 2016	63,589	155,268	480,382	403,530	81,551	18,655	1,202,975
Transfer between categories	–	2,043	–	–	380	(2,423)	–
Transfer to software assets	–	–	–	–	–	(16,232)	(16,232)
Additions	711	3,457	15,929	29,355	4,234	5,228	58,914
Disposals	(29)	(20,982)	(143,393)	(126,639)	(4,534)	–	(295,577)
Balance at 30 June 2017	**64,271**	**139,786**	**352,918**	**306,246**	**81,631**	**5,228**	**950,080**
Accumulated depreciation							
Balance at 1 July 2016	20,478	135,611	389,194	319,746	54,630	–	919,659
Depreciation for the year	2,244	8,325	32,634	35,767	8,600	–	87,570
Disposals	(28)	(20,949)	(143,071)	(126,638)	(4,529)	–	(295,215)
Balance at 30 June 2017	**22,694**	**122,987**	**278,757**	**228,875**	**58,701**	**–**	**712,014**
Net book value at 30 June 2017	**41,577**	**16,799**	**74,161**	**77,371**	**22,930**	**5,228**	**238,066**

Land, buildings and leasehold improvements at 30 June 2018 includes land with a cost of $8,820,000 (30 June 2017: $8,820,000).

Depreciation related to broadcasting assets (including decoders and capitalised installation costs) of $71,201,000 (30 June 2017: $76,726,000) accounts for the majority of the total depreciation charge. Due to immateriality of the remaining depreciation, no allocation of deprecation has been made across expense categories in the consolidated statement of comprehensive income.

The net book value of assets subject to finance leases totals $3,050,000 (30 June 2017: nil).

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses except land which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Capitalised installation costs are represented by the cost of satellite dishes, installation costs and direct labour costs. Where parts of and item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. The cost of additions to plant and other assets constructed by the Group consist of all appropriate costs of development, construction and installation, comprising material, labour, direct overhead and transport costs. For qualifying assets directly attributable interest costs incurred during the period required to complete and prepare the asset for its intended use are capitalised as part of the total cost. All other costs are recognised in profit and loss as an expense as incurred. Additions in the current year include $110,000 of capitalised labour costs (30 June 2017: $954,000).

Projects under development comprises expenditure on partially completed assets. The projects include items of property, plant and equipment and intangible assets. At completion of the project the costs are allocated to the appropriate asset categories and depreciation or amortisation commences.

Costs may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and recognised in other costs in profit and loss.

Depreciation

Property, plant and equipment are depreciated using the straight-line method so as to allocate the costs of assets to their residual values over their estimated useful lives as follows:

Assets	Time
Leasehold improvements	5 – 50 years
Buildings	50 years
Broadcasting and studio equipment	5 – 10 years
Decoders and associated equipment	4 – 5 years
Other plant and equipment	3 – 10 years
Capitalised installation costs	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

Key estimates and assumptions

The estimated life of technical assets such as decoders and other broadcasting assets is based on management's best estimates. Changes in technology may result in the economic life of these assets being different from that estimated previously. The board and management regularly review economic life assumptions of these assets as part of management reporting procedures.

Notes to the consolidated financial statements (CONTINUED)

For the year ended 30 June 2018

9. Intangible assets

IN NZD 000	Software	Broadcasting rights	Other intangibles	Indefinite life goodwill	Total
For the year ending 30 June 2018					
Cost					
Balance at 1 July 2017	135,690	2,185	3,167	1,426,293	1,567,335
Transfer from projects under development	3,032	–	–	–	3,032
Additions	14,559	–	–	–	14,559
Disposals	(14,398)	(2,185)	(2,084)	–	(18,667)
Balance at 30 June 2018	**138,883**	**–**	**1,083**	**1,426,293**	**1,566,259**
Accumulated amortisation and impairment					
Balance at 1 July 2017	72,837	2,185	3,078	962	79,062
Amortisation for the year	21,134	–	56	–	21,190
Impairment	–	–	–	360,000	360,000
Disposals	(14,398)	(2,185)	(2,084)	–	(18,667)
Balance at 30 June 2018	**79,573**	**–**	**1,050**	**360,962**	**441,585**
Net book value at 30 June 2018	**59,310**	**–**	**33**	**1,065,331**	**1,124,674**
For the year ending 30 June 2017					
Cost					
Balance at 1 July 2016	133,593	2,185	3,167	1,426,293	1,565,238
Transfer from projects under development	16,232	–	–	–	16,232
Additions	16,447	–	–	–	16,447
Disposals	(30,582)	–	–	–	(30,582)
Balance at 30 June 2017	**135,690**	**2,185**	**3,167**	**1,426,293**	**1,567,335**
Accumulated amortisation					
Balance at 1 July 2016	86,607	1,419	3,078	962	92,066
Amortisation for the year	16,812	766	–	–	17,578
Disposals	(30,582)	–	–	–	(30,582)
Balance at 30 June 2017	**72,837**	**2,185**	**3,078**	**962**	**79,062**
Net book value at 30 June 2017	**62,853**	**–**	**89**	**1,425,331**	**1,488,273**

The majority of the amortisation charge relates to broadcasting and infrastructure assets. Consequently no allocation has been made across expense categories in profit and loss.

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition and the fair value of the non-controlling interest in the acquiree. The goodwill balance is allocated to the Group's single operating segment. The majority of the goodwill ($1,422,115,000) arose as a result of the acquisition of SKY by Independent Newspapers Limited (INL) in 2005. Subsequent acquisitions have resulted in immaterial increases to goodwill. In the current year testing indicated that the carrying value of goodwill would not be recovered , resulting in an impairment charge of $360 million.

Broadcasting rights, consisting of UHF spectrum licences are recognised at cost and are amortised on a straight-line basis over the lesser of the period of the licence term and 20 years.

Software development costs recognised as assets are amortised on a straight-line basis over their estimated useful lives (three to five years).

Direct costs associated with the development of broadcasting and business software for internal use are capitalised where it is probable that the asset will generate future economic benefits. Capitalised costs include external direct costs of materials and services consumed and direct payroll-related costs for employees (including contractors) directly associated with the project and interest costs incurred during the development stage of a project. Additions in the current year to software include $6,035,000 of accumulated capitalised labour costs, $5,849,000 of which were incurred in the current year.

Goodwill

IN NZD 000	2018	2017
Opening balance	1,426,293	1,426,293
Impairment	(360,962)	(962)
Closing balance	**1,065,331**	**1,425,331**

Key estimates and assumptions

Assets that are subject to amortisation and depreciation are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use.

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested at each reporting date for impairment and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group operates as a single business segment and monitors goodwill for the business as a whole. If the testing indicates the carrying value exceeds the recoverable amount, goodwill is considered to be impaired. The recoverable amount of the cash generating unit (CGU) which is classified within Level 3 of the fair value hierarchy has been determined based on fair value less cost of disposal calculations which include the benefits of proposed changes to the cost structure of the business as SKY leverages new technologies and adapts its operating model, some of which would be excluded from a value-in-use calculation.

Key assumptions used in fair value less cost of disposal calculations

Key assumptions are subscriber numbers, churn rates, foreign exchange rates, expected changes to revenue, costs and capital expenditure, ability to secure key content, including retention of the SANZAAR rugby contract and a discount rate based on current market rates adjusted for risks specific to the business. Growth rates are based on expected forecasts and changes in prices, direct costs and capital expenditure are based on past experience and expectations of future changes in the market.

The fair value less cost of disposal calculation is based on the present value of estimated future cash flows, approved by the board, derived from budgets for financial year 2019 and forecasts for the next four years prepared for the impairment model.

The review has resulted in the fair value less cost of disposal calculated falling below the $1.46 billion carrying value of goodwill by $360 million. This impairment loss recognised in the year ended 30 June 2018 reflects the following key assumptions used in SKY's model:

- A further decrease in residential subscribers in total of 57,000 (8.3%) over five years (June 2017 – decrease of 56,000 -7.8%).

  Core residential subscriber numbers have continued to decline in the year to 30 June 2018 and the impairment model has been updated to assume they continue to decline at reducing rates over the five years. The decline in satellite subscribers is partially offset by a growth in retransmission subscribers.
- A decrease in total subscriber ARPU of 17.6% over five years to $62.89 (June 2017 – 0.7% decrease in ARPU to $78.24).

  The lower ARPU assumed in the model reflects the combined impacts of the pricing and product offering changes introduced in March 2018, of SKY wholesaling more of its products to third parties for on-sale and of growth in the number of subscribers to the lower price and lower cost internet delivered products like NEON and FANPASS.
- A decrease in operating costs of $51 million (9.2%) over five years (June 2017 – decrease of $101 million – 16.5%).

  The reduction in future operating cost savings reflects that actual savings of $47 million were achieved in FY18. The current model also treats satellite costs as a finance lease from 1 July 2019, which results in these costs being excluded from future operating costs whereas they were included as operating costs in the June 2017 model. The cash cost of the satellite lease is still reflected in the fair value calculation.

Other key assumptions in the model are:

- Capital expenditure averaging $80 million per annum over the five years reducing to $70 million in 2023.
- A 0% terminal growth assumption and a 9.0% after tax (12.5% pre-tax) discount rate (June 2017 – 0% and 9.0%).
- A weaker NZD to USD exchange rate, reducing to 0.67 from the second year (June 2017 – 0.70).

The forecast continuing reduction in SKY's operating costs reflect the lower customer base and the benefits of cost saving initiatives that have started to be rolled out throughout the business, including savings from using new technology. These reductions have been partially offset by the effect of the weaker NZ dollar on programming costs.

The Group also compares the net book value of equity with the market capitalisation value at the balance date. The share price at 30 June 2018 was $2.60 (prior year $3.45) equating to a market capitalisation of $1.01 billion. This market value excludes any control premium and may not reflect the value of 100% of SKY's equity. The net book value of SKY equity at 30 June 2018 following the $360 million impairment of goodwill is $1.03 billion ($2.64 per share).

Notes to the consolidated financial statements (CONTINUED)

For the year ended 30 June 2018

Sensitivity of recoverable amounts

The assessment of fair value less cost of disposal is most sensitive to the assumptions on the net gain in satellite subscriber numbers, future average revenue per user (ARPU), future cost savings initiatives, the NZD cost of programming rights and the discount rate.

The fair value less cost of disposal calculation would reduce, resulting in a further impairment of goodwill, should there be the following adverse changes in these key assumptions:

- If satellite subscriber numbers fall by a further 5% over five years, there would be an impairment of approximately $185 million.
- If residential subscriber ARPU fell by a further 5% over five years there would be an impairment of approximately $210 million.
- If cash outflows (either through increased operating costs or increased capital expenditure) were higher by 5% over 5 years there would be an impairment of approximately $175 million.
- If the discount rate were higher by 1% there would be an impairment of approximately $130 million.
- If the USD/NZD falls 5% to 0.637 there would be an impairment of approximately $50 million.

10. Trade and other payables

IN NZD 000	Notes	2018	2017
Trade payables		86,103	80,731
Unearned subscriptions and deferred revenue		60,746	64,250
Employee entitlements		14,740	15,559
Accruals		24,465	25,647
Balance at end of year		**186,054**	**186,187**
Less			
Unearned subscriptions and deferred revenue		(60,746)	(64,250)
Balance financial instruments	14	**125,308**	**121,937**

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest method.

11. Borrowings

	2018			2017		
IN NZD 000	Current	Non-current	Total	Current	Non-current	Total
Borrowings	458	132,625	133,083	–	199,685	199,685
Finance lease	582	2,429	3,011	–	–	–
Bonds	–	99,250	99,250	–	98,978	98,978
	1,040	**234,304**	**235,344**	**–**	**298,663**	**298,663**

Repayment terms

IN NZD 000	2018	2017
Less than one year	1,040	–
Between one and five years	234,304	298,663
	235,344	**298,663**

Bank Loans

The Group has a revolving credit bank facility of $300 million (30 June 2017: $300 million) expiring 17 July 2020 from a syndicate of banks comprising ANZ National Bank Limited, Bank of New Zealand, Commonwealth Bank of Australia and Westpac Bank. Bank overdrafts of $3,307,000 (30 June 2017: $5,701,000) have been set off against cash balances.

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings, using the effective interest method. Arrangement fees are amortised over the term of the loan facility. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance date.

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Lease liabilities

	2018		
IN NZD 000	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	727	145	582
Between one and five years	2,704	275	2,429
	3,431	**420**	**3,011**

The Group's obligations under finance leases are secured by the lessors' title to the leased assets. The lease terms are for five years ending on 30 November 2022 and 30 June 2023.

Leases in terms of which the Group assumes substantially all the risk and rewards of ownership are classified as finance leases.
Assets acquired under finance leases are included as non-current assets in the consolidated balance sheet. The lower of fair value and the present value of the minimum lease payments is recognised as an asset at the beginning of the lease term and depreciated on a straight-line basis over the shorter of the lease term or the expected useful life of the leased asset. A corresponding liability is also established and each lease payment is allocated between the liability and interest expense so as to produce a constant period rate of interest on the remaining balance of the liability.

Bonds

On 31 March 2014 the Group issued bonds for a value of $100 million which were fully subscribed.

Terms and conditions of outstanding bonds are as follows:

	2018	**2017**
	Bond	**Bond**
Nominal interest rate	6.25%	6.25%
Market yield	4.55%	4.92%
Issue date	31-Mar-14	31-Mar-14
Date of maturity	31-Mar-21	31-Mar-21
IN NZD 000		
Carrying amount	99,250	98,978
Fair value	104,375	104,529
Face value	100,000	100,000

Bonds are recognised initially at fair value less costs of issue. Costs of issue are amortised over the period of the bonds. Subsequent to initial recognition, bonds are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the bonds, using the effective interest method. Bonds are classified in the consolidated balance sheet as non-current liabilities unless settlement of the liability is due within twelve months after the balance date.

The difference between carrying amount and fair value has not been recognised in the financial statements as the bonds are intended to be held until maturity.

Notes to the consolidated financial statements (CONTINUED)

For the year ended 30 June 2018

11. Borrowings (CONTINUED)

Changes in liabilities arising from financing activities

IN NZD 000	1 July 2017	Advances received	Repayment	Fees	Reclass	Change in fair value	30 June 2018
Current liabilities							
Borrowings	–	–	–	–	458	–	458
Finance lease	–	–	–	–	582	–	582
Derivatives – interest rate	2,502	–	(2,502)	–	412	–	412
Non-current liabilities							
Borrowings	199,685	97,000	(166,000)	137	–	–	130,822
Vendor finance	–	2,386	(125)	–	(458)	–	1,803
Finance lease	–	3,182	(171)	–	(582)	–	2,429
Bonds	98,978	–	–	272	–	–	99,250
Derivatives – interest rate	2,796	–	–	–	(412)	(909)	1,475
	303,961	**102,568**	**(168,798)**	**409**	**–**	**(909)**	**237,231**

IN NZD 000	1 July 2016	Advances received	Repayment	Fees	Reclass	Change in fair value	30 June 2017
Current liabilities							
Bonds	199,912	–	(200,000)	88	–	–	–
Derivatives – interest rate	677	–	(677)	–	2,502	–	2,502
Non-current liabilities							
Borrowings	49,468	261,000	(111,000)	217	–	–	199,685
Bonds	98,705	–	–	273	–	–	98,978
Derivatives – interest rate	8,986	–	–	–	(2,502)	(3,688)	2,796
	357,748	**261,000**	**(311,677)**	**578**	**–**	**(3,688)**	**303,961**

12. Derivative financial instruments

		2018			2017		
IN NZD 000	Notes	Assets	Liabilities	Notional amounts	Assets	Liabilities	Notional amounts
Interest rate swaps – cash flow hedges		–	(1,887)	80,000	–	(5,298)	188,000
Interest rate swaps – fair value through profit and loss		117	–	10,000	46	–	10,000
Total interest rate derivatives		**117**	**(1,887)**	**90,000**	**46**	**(5,298)**	**198,000**
Forward foreign exchange contracts – cash flow hedges		14,485	(336)	382,392	324	(8,100)	421,797
Forward foreign exchange contracts – dedesignated		1,621	(25)	36,442	17	(1,621)	46,584
Total forward foreign exchange derivatives		**16,106**	**(361)**	**418,834**	**341**	**(9,721)**	**468,381**
		16,223	**(2,248)**	**508,834**	**387**	**(15,019)**	**666,381**
Analysed as:							
Current		9,917	(595)	266,054	176	(9,038)	361,286
Non-current		6,306	(1,653)	242,780	211	(5,981)	305,095
		16,223	**(2,248)**	**508,834**	**387**	**(15,019)**	**666,381**
Derivatives used for hedging – cash flow hedges	14	14,485	(2,223)	462,392	324	(13,398)	609,797
At fair value through profit or loss	14	1,738	(25)	46,442	63	(1,621)	56,584
		16,223	**(2,248)**	**508,834**	**387**	**(15,019)**	**666,381**

Exchange rates

Foreign exchange rates used at balance date for the New Zealand dollar are:

	2018	2017
USD	0.6774	0.7315
AUD	0.9147	0.9530
GBP	0.5128	0.5623
EUR	0.5793	0.6402
JPY	74.9807	81.9792

Credit risk – derivative financial instruments

The maximum exposure to credit risk on the derivative financial instruments is the value of the derivative assets' receivable portion of $16,233,000 (2017: $387,000).

Exposure to currency risk

The Group's exposure to foreign currency risk that has been covered by forward foreign exchange contracts is as follows:

		2018			2017	
IN NZD 000	**USD**	**AUD**	**Other**	**USD**	**AUD**	**Other**
Foreign currency payables	(27,787)	(16,668)	(882)	(28,822)	(17,918)	–
Dedesignated forward exchange contracts	21,592	14,850	–	29,921	16,664	–
Net balance sheet exposure	**(6,195)**	**(1,838)**	**(882)**	**1,099**	**(1,254)**	**–**
Forward exchange contracts (for forecasted transactions)	223,652	158,740	–	273,746	147,082	968
Total forward exchange contracts	**245,244**	**173,590**	**–**	**303,667**	**163,746**	**968**

Sensitivity analysis

A 10% strengthening or weakening of the NZD against the following currencies as at 30 June would have resulted in changes to equity (hedging reserve) and unrealised gain/losses (before tax) as shown below. Based on historical movements, a 10% increase or decrease in the NZD is considered to be a reasonable estimate. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the prior year.

	10% rate increase		10% rate decrease	
IN NZD 000 gain/(loss)	**Equity**	**Profit or loss**	**Equity**	**Profit or loss**
As at 30 June 2018				
Foreign currency payables				
USD	–	2,526	–	(3,087)
AUD	–	1,823	–	(2,229)
Foreign exchange hedges				
USD	(20,058)	(2,058)	24,515	2,515
AUD	(14,353)	(1,385)	17,544	1,692
	(34,411)	**907**	**42,059**	**(1,109)**
As at 30 June 2017				
Foreign currency payables				
USD	–	2,622	–	(3,205)
AUD	–	2,025	–	(2,475)
Foreign exchange hedges				
USD	(23,707)	(1,725)	29,048	2,110
AUD	(12,936)	(1,475)	15,822	1,803
Other	(85)	–	103	–
	(36,728)	**1,447**	**44,973**	**(1,767)**

Notes to the consolidated financial statements (CONTINUED)

For the year ended 30 June 2018

12. Derivative financial instruments (CONTINUED)

Interest rates

During the year ended 30 June 2018, interest rates on borrowings varied in the range of 3.3% to 6.5% (2017:3.2% to 6.5%).

The Group's interest rate structure is as follows:

		2018			2017		
IN NZD 000	**Notes**	**Effective interest rate**	**Current**	**Non-current**	**Effective interest rate**	**Current**	**Non-current**
Assets							
Cash and cash equivalents		3.87%	4,694	–	2.31%	5,444	–
Liabilities							
Borrowings	11	5.58%	(458)	(132,625)	5.36%	–	(199,685)
Financial leases	11	6.15%	(582)	(2,429)	–	–	–
Bonds	11	6.18%	–	(99,250)	6.04%	–	(98,978)
Derivatives							
Floating to fixed interest rate swaps		–	20,000	60,000	–	108,000	80,000
Fixed to floating interest rate swaps		–	–	10,000	–	–	10,000
			23,654	**(164,304)**		**113,444**	**(208,663)**

Gains and losses recognised in the hedging reserve in equity (note 13) on interest rate hedges as at 30 June 2018 will be continuously released to profit or loss within finance cost until the repayment of the bank borrowings and bonds. In the prior year the revolving credit facility was utilised to repay the bond. The interest rate swap designated to the bond were designated to the floating rate debt.

Sensitivity analysis for interest-bearing instruments

A change of 100 basis points in interest rates on the reporting date, would have increased/(decreased) equity (hedging reserve) and profit or loss (before tax) by the amounts shown below. Based on historical movements a 100 basis point movement is considered to be a reasonably possible estimate. The analysis is performed on the same basis for the prior year. This analysis assumes that all other variables remain constant.

	100 BP increase		100 BP decrease	
IN NZD 000 gain/(loss)	**Equity**	**Profit or loss**	**Equity**	**Profit or loss**
As at 30 June 2018				
Variable rate instruments - bank loans	–	(1,260)	–	1,260
Interest rate hedges - cash flow	698	–	(709)	–
	698	**(1,260)**	**(709)**	**1,260**
As at 30 June 2017				
Variable rate instruments - bank loans	–	(1,938)	–	1,938
Interest rate hedges - cash flow	1,710	–	(1,762)	–
	1,710	**(1,938)**	**(1,762)**	**1,938**

Derivative financial instruments are used to hedge the Group's exposure to foreign exchange and interest rate risks. The Group does not hold or issue derivatives for trading purposes. However derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are re-measured at their fair value at subsequent reporting dates. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

At inception the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Derivatives consist of currency forwards and interest rate swaps. The fair value is recognised in the hedging reserve within equity until such time as the hedged item will affect profit or loss. The amounts accumulated in equity are either released to profit or loss or used to adjust the carrying value of assets purchased. For example, when hedging forecast purchase of programme rights in foreign currency, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the programme rights. The deferred amounts are ultimately recognised in programme rights' expenses in profit or loss.

Amounts accumulated in the hedging reserve in equity on interest rate swaps are recycled in profit or loss in the periods when the hedged item affects profit or loss (for example when the forecast interest payment that is hedged is made). The gain or loss relating to any ineffective portion is recognised in profit or loss as "interest rate swaps - fair value" in finance costs. The gain or loss relating to interest rate swaps which do not qualify for hedge accounting is recognised in profit or loss within the interest expense charge in "finance costs, net".

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

13. Equity

Share capital

	Number of shares (000)	Ordinary shares (NZD 000)
Shares on issue at 30 June 2018 and 30 June 2017	389,140	577,403

Ordinary shares are fully paid and have no par value. The shares rank equally, carry voting rights and participate in distributions.

Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2018	2017
(Loss)/profit after tax attributable to equity holders of Parent (NZD 000)	(240,956)	116,026
Weighted average number of ordinary shares on issue (000)	389,140	389,140
Basic (loss)/earnings per share (cents)	**(61.92)**	**29.82**
Underlying earnings per share		
(Loss)/profit after tax attributable to equity holders of Parent (NZD 000)	(240,956)	116,026
Adjust goodwill impairment	360,000	–
Underlying profit after tax attributable to equity holders of the parent	**119,044**	**116,026**
Weighted average number of ordinary shares on issue (000)	389,140	389,140
Underlying earnings per share (cents)	**30.59**	**29.82**

Weighted average number of ordinary shares	**Number**	**Number**
Issued ordinary shares at beginning of year	389,139,785	389,139,785
Issued ordinary shares at end of year	389,139,785	389,139,785
Weighted average number of ordinary shares	**389,139,785**	**389,139,785**

Notes to the consolidated financial statements (CONTINUED)

For the year ended 30 June 2018

13. Equity (CONTINUED)

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. SKY had no dilutive potential ordinary shares during the current or prior period.

Hedging reserve

IN NZD 000	Notes	2018	2017
Balance at 1 July		(9,062)	(5,112)
Cash flow hedges			
Revaluation		14,258	(11,189)
Transfer to profit or loss		10,873	5,704
Deferred tax	5	(7,037)	1,535
		18,094	**(3,950)**
Balance at end of year		**9,032**	**(9,062)**

14. Financial risk management

Financial risk management objectives

The Group undertakes transactions in a range of financial instruments which include cash and cash deposits, receivables, payables, derivatives and various forms of borrowings including bonds and bank loans.

These activities result in exposure to financial risks that include market risk (currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of currency and interest rate risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provides written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Corporate Treasury function reports monthly to the board of directors. The board has an audit and risk committee which is responsible for developing and monitoring the Group's risk management policies.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group buys and sells derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the board. Generally the Group seeks to apply hedge accounting in order to manage income statement volatility.

a) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Australian dollar and the United States dollar in relation to purchases of programme rights and the lease of transponders on the satellite. Foreign exchange risk arises when purchases are denominated in a currency that is not the entity's functional currency. The net position in each foreign currency is managed by using forward currency contracts and foreign currency options and collars to limit the Group's exposure to currency risk.

The Group's risk management policy is to hedge foreign capital expenditure (Capex) and foreign operating expenditure (Opex) in accordance with the following parameters. Approximately 90% of anticipated transactions in each major currency qualify as 'highly probable' forecast transactions for hedge accounting purposes.

		Period	Minimum hedging	Maximum hedging
Capex	Capex order greater than NZD $250,000	Time of issuing order	100%	100%
Opex	Fixed commitments	Up to 3 years	100%	100%
		> 3 years	0%	100%
Opex	Variable commitments	0-12 months	85%	95%
		13-24 months	0%	50%
		25-26 months	0%	30%

b) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain its borrowings in fixed rate instruments as follows:

	Period	Minimum hedging	Maximum hedging
Variable rate borrowings	1-3 years	40%	90%
	3-5 years	20%	60%
	5-10 years	0%	30%

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. The Group also enters into fixed-to-floating interest rate swaps to hedge fair value interest rate risk arising where it has borrowed at fixed rates.

c) Price risk

The Group does not have any price risk exposure.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises from cash and cash equivalents, deposits with banks, derivative financial instruments and the Group's receivables from customers.

The Group has no significant concentrations of credit risk.

Credit risk with respect to trade receivables is limited due to the large number of subscribers included in the Group's subscriber base. In addition, receivables balances are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant. The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. The maximum exposure is the carrying amount as disclosed in note 6.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

Management monitors the Group's cash requirements on a daily basis against expected cash flows based on a rolling daily cash flow forecast for at least 90 days in advance. In addition the Group compares actual cash flow reserves against forecast and budget on a monthly basis.

The Group had an undrawn facility balance of $169 million (June 2017: $100 million) that can be drawn down to meet short-term working capital requirements. The facility limit at 30 June 2018 is $300 million (30 June 2017: $300 million)

Notes to the consolidated financial statements (CONTINUED)

For the year ended 30 June 2018

14. Financial risk management (CONTINUED)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the balance date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payments in respect of financial liabilities and the net settled interest rate derivatives that are in a loss position at balance date. Balances due within 12 months equal their carrying value as the impact of discounting is not significant.

IN NZD 000	Notes	Carrying amount	Contractual cash flows	Less than one year	1-2 years	2-5 years
At 30 June 2018						
Non derivative financial liabilities						
Secured bank loans	11	130,822	(140,330)	(4,559)	(4,559)	(131,212)
Other loans	11	2,261	(2,376)	(500)	(500)	(1,376)
Finance leases	11	3,011	(3,402)	(728)	(728)	(1,946)
Bonds	11	99,250	(117,188)	(6,250)	(6,250)	(104,688)
Trade and other payables	10	125,308	(125,308)	(125,308)	–	–
Derivative financial liabilities						
Forward exchange contracts used for hedging – net outflow/inflow [(1)]	12	361	(373)	(184)	(189)	–
Interest rate swaps [(1)]	12	1,887	(1,708)	(1,268)	(440)	–
		362,900	**(390,685)**	**(138,797)**	**(12,666)**	**(239,222)**
At 30 June 2017						
Non derivative financial liabilities						
Secured bank loans	11	199,685	(221,204)	(6,960)	(6,960)	(207,284)
Bonds	11	98,978	(123,438)	(6,250)	(6,250)	(110,938)
Trade and other payables	10	121,937	(121,937)	(121,937)	–	–
Derivative financial liabilities						
Forward exchange contracts used for hedging – net outflow/inflow [(1)]	12	9,721	(9,911)	(6,598)	(2,279)	(1,034)
Interest rate swaps [(1)]	12	5,298	(5,242)	(3,534)	(1,257)	(451)
		435,619	**(481,732)**	**(145,279)**	**(16,746)**	**(319,707)**

[(1)] The table excludes the contractual cash flows of the interest rate swaps and forward exchange contracts which are included in assets.

The table below analyses the Group's foreign exchange derivative financial instruments which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Inflows have been calculated using balance date spot rates.

IN NZD 000	Exchange rate	Contractual cash flows foreign exchange amount	Contractual cash flows	Less than one year	1-2 years	3-5 years
At 30 June 2018						
Forward foreign exchange contracts						
Outflow (at FX hedge rate)						
USD	–	–	(245,244)	(141,520)	(77,212)	(26,512)
AUD	–	–	(173,590)	(104,534)	(48,275)	(20,781)
Inflow (at year end market rate)						
USD	0.6774	175,191	258,623	149,240	81,424	27,958
AUD	0.9147	161,516	176,578	106,334	49,106	21,139
			16,367	**9,520**	**5,043**	**1,804**
At 30 June 2017						
Forward foreign exchange contracts						
Outflow (at FX hedge rate)						
USD	–	–	(303,668)	(151,636)	(73,242)	(78,790)
AUD	–	–	(163,746)	(100,682)	(43,218)	(19,846)
YEN	–	–	(636)	(636)	–	–
Inflow (at year end market rate)						
USD	0.7315	214,375	293,062	146,340	70,684	76,038
AUD	0.9530	153,221	160,778	98,857	42,435	19,486
YEN	81.9792	49,084	599	599	–	–
			(13,611)	**(7,158)**	**(3,341)**	**(3,112)**

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's overall strategy for capital risk management remains unchanged from 2017.

The capital structure of the Group consists of debt which includes the borrowings disclosed in note 11, cash and cash equivalents and equity attributable to equity holders of the Parent comprising share capital, hedging reserve and retained earnings as disclosed in note 13.

The board reviews the Group's capital structure on a regular basis. The Group has a facility agreement in place with a syndicate of banks and a retail bond issue as described in note 11.

Notes to the consolidated financial statements (CONTINUED)

For the year ended 30 June 2018

14. Financial risk management (CONTINUED)

The gearing ratio at the year-end was as follows:

IN NZD 000	Notes	2018	2017
Debt	11	235,344	298,663
Cash and cash equivalents		(4,694)	(5,444)
Net debt		**230,650**	**293,219**
Equity		1,026,687	1,327,878
Net debt to equity ratio		**22%**	**22%**

The Group's bank loan facility is subject to a number of covenants, including interest and debt cover ratios, calculated and reported quarterly, with which it has complied for the entire year reported (2017: complied).

Fair value estimation

The methods used to estimate the fair value of financial instruments are as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs), for example discounted cash flow.

SKY's financial assets and liabilities carried at fair value are valued on a level 2 basis other than the available for sale investment (refer note 1) that is valued on a level 3 basis.

IN NZD 000	Notes	2018	2017
Assets measured at fair value			
Trading derivatives – de-designated or not hedge accounted	12	1,738	63
Derivatives used for hedging – cash flow hedges	12	14,485	324
Available for sale investment	1	6,334	6,552
Total assets		**22,557**	**6,939**
Liabilities measured at fair value			
Trading derivatives – de-designated or not hedge accounted	12	(25)	(1,621)
Derivatives used for hedging – cash flow hedges	12	(2,223)	(13,398)
Total liabilities		**(2,248)**	**(15,019)**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The Group uses a variety of methods and assumptions that are based on market conditions existing at each balance date. Techniques, such as estimated discounted cash flows, are used to determine the fair value of financial instruments. The fair value of forward exchange contracts is based on market forward foreign exchange rates at year end. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the reporting date, taking into account current interest rates, observable yield curves and the current creditworthiness of the swap counterparties.

Fair value of financial instruments carried at amortised cost

IN NZD 000	Notes	2018 Carrying Amount	2018 Fair Value	2017 Carrying Amount	2017 Fair Value
Financial assets					
Loans and receivables					
Cash and cash equivalents		4,694	4,694	5,444	5,444
Trade and other receivables	6	57,239	57,239	63,342	63,342
Total assets		**61,933**	**61,933**	**68,786**	**68,786**
Financial liabilities held at amortised cost					
Bank loans	11	130,822	128,580	199,685	198,037
Other loans	11	2,261	2,059	–	–
Finance leases	11	3,011	2,907	–	–
Bonds	11	99,520	104,375	98,978	104,529
Trade and other payables	10	125,308	125,308	121,937	121,937
Total liabilities		**360,922**	**363,229**	**420,600**	**424,503**

The fair values of financial assets and financial liabilities are determined as follows:

Cash and short-term deposits, trade and other receivables carried at amortised cost, trade and other payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of quoted notes and bonds is based on price quotations at the reporting date being a level 1 basis. The fair value of loans from banks and lease liabilities is estimated on a level 3 basis by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. The fair value of related party receivables is estimated on a level 3 basis by discounting future cash flows using rates currently available for deposits on similar terms.

Classification

Financial assets are classified in the following categories: at fair value through profit or loss, or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at each reporting date.

All purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the assets. Purchases or sales of financial assets are sales or purchases that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are categorised as held for trading unless they are designated as hedges. Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those assets with maturities greater than 12 months after the balance date when they are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the consolidated balance sheet. Gains or losses are recognised in profit or loss when the loans and receivables are derecognised or impaired as well as through the amortisation process.

Impairment of financial assets

The Group assesses at each balance date whether there is objective evidence, such as default or delinquency in payment, that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account with the amount of the loss being recognised in profit or loss.

Notes to the consolidated financial statements (CONTINUED)

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15. Commitments

IN NZD 000	2018	2017
Operating leases – future minimum lease payments:		
Year 1	34,782	35,134
Year 2	34,272	33,873
Year 3	34,607	33,285
Year 4	14,280	33,170
Year 5	–	14,006
Later than five years	–	72
	117,941	**149,540**
Contracts for transmission services:		
Year 1	4,987	4,697
Year 2	4,994	539
Year 3	2,514	245
	12,495	**5,481**
Contracts for future programmes:		
Year 1	211,628	202,415
Year 2	172,462	181,110
Year 3	101,784	146,953
Year 4	33,076	83,361
Year 5	19,776	33,391
Later than five years	2,666	19,331
	541,392	**666,561**
Capital expenditure commitments:		
Property, plant and equipment		
Year 1	2,661	8,813
	2,661	**8,813**
Other services commitments:		
Year 1	11,344	7,508
Year 2	2,055	1,562
Year 3	1,188	978
Year 4	233	970
Year 5	–	193
	14,820	**11,211**

The Group has entered into a contract with Optus Networks Pty Limited (Optus) to lease transponders on the D1 satellite which was launched in October 2006 and commissioned in November 2006. The contract is for a period of 15 years from the time of commissioning with monthly payments in Australian dollars. This contract is accounted for as an operating lease. Non-cancellable operating lease payments, including Optus lease payments, are included in operating leases above.

SKY is currently utilising seven transponders, six of which are on a long-term lease. Access to the seventh transponder was negotiated, effective from 1 April 2011.

16. Contingent liabilities

The Group has undrawn letters of credit at 30 June 2018 of $650,000 (30 June 2017: $650,000), relating to Datacom Employer Services for SKY executive and Screen Enterprises Limited payroll liabilities in the current year.

The Group is subject to litigation incidental to their business, none of which is expected to be material. No provision has been made in the Group's financial statements in relation to any current litigation and the directors believe that such litigation will not have a significant effect on the Group's financial position, results of operations or cash flows.

17. Subsequent events

On 23 August 2018 the Board of Directors announced that it will pay a fully imputed dividend of 7.5 cents per share with the record date being 7 September 2018. A supplementary dividend of 1.3235 cents per share will be paid to non-resident shareholders subject to the foreign investor tax credit regime.

In July 2018 the available for sale investment in 90 Seconds was sold for book value of $6.3 million.

Independent auditor's report

To the shareholders of Sky Network Television Limited

The consolidated financial statements comprise:

- the consolidated balance sheet as at 30 June 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements of Sky Network Television Limited (SKY or the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

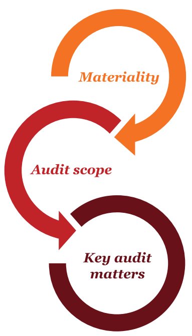
We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of treasury advisory services and assurance over regulatory reporting. In addition, certain partners and employees of our firm may subscribe to SKY services on normal terms within the ordinary course of the trading activities of the Group. The provision of these other services has not impaired our independence.

Our audit approach



Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

For the purpose of our audit, we applied a threshold of overall group materiality of $8.3 million, which represents 5% of loss before tax, adjusted to exclude the goodwill impairment charge of $360 million.

We have determined that there is one key audit matter:

- Carrying value of goodwill

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

PricewaterhouseCoopers, 188 Quay Street, Private Bag 92162, Auckland 1142, New Zealand
T: +64 (9) 355 8000, F: +64 (9) 355 8001, www.pwc.com/nz

Audit scope

We designed our audit by assessing the risks of material misstatement in the consolidated financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group's finance function is centralised at the Head Office in Auckland. All audit work in respect of the consolidated financial statements was performed by the Group engagement team.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit
Carrying value of goodwill	
The Group has a goodwill balance of $1,065 million at 30 June 2018 (30 June 2017: $1,425 million) that arose on the acquisition of SKY by Independent Newspapers Limited in 2005. An impairment charge of $360 million has been recorded against this balance in the current financial year. SKY's business is affected by digital disruption in the media industry and this increases the risk of impairment. The carrying value of goodwill is dependent on future cash flows and there is risk that if these cash flows do not meet the Group's expectations goodwill may be impaired. To assess whether or not there is an impairment in the carrying value of goodwill management utilised a fair value less costs of disposal methodology to determine the value of the business, including goodwill, using discounted cash flows. The estimated future cash flows used in the model were based on the budget for the next financial year and forecast cash flows for the following four years prepared for the purposes of the impairment model. The forecasts in the current model include the benefit of cost savings expected in response to the changes in SKY's business and the marketplace, some of which would be excluded under a value in use methodology. Consequently, at 30 June 2018 management considered the recoverable amount using the fair value less costs of disposal methodology as being the most appropriate approach. The cash flow forecasts used in the model involve subjective estimates about future business performance. Certain assumptions made by management in the impairment review are key estimates, including subscriber numbers and churn rates, average revenue per user (ARPU), ability to continue to secure key content, foreign exchange rates, expected changes to revenue, costs and capital expenditure, overall long-term growth rates and discount rates used. Adverse changes in these assumptions might lead to an impairment in the carrying value of goodwill. In their assessment management determined that the model was most sensitive to changes in the assumptions relating to subscriber numbers, ARPU, reductions achieved in cash outflows through either operating expenses or capital expenditure, the discount rate and the USD/NZD exchange rate.	We obtained management's fair value less costs of disposal model used to assess the carrying value of goodwill at 30 June 2018. Our audit procedures included the following: Assessing management's processes and controls over preparing the model. Assessing the appropriateness of using a fair value less costs of disposal approach against the applicable accounting standard. We tested the calculation of the valuation model, including the inputs and the mathematical accuracy and compared the resulting balances to the relevant net assets of the business. We assessed the key estimates and assumptions made by management. Our procedures included the following: • Ensured that the impairment model used by management to assess the impairment of goodwill was approved by the Board. • Considered the reasonableness of key assumptions, including movements in subscriber numbers, ARPU, foreign exchange rates, expected revenue and costs in the next 5 years, the on-going level of capex and the long-term growth rate with reference to SKY's performance historically, particularly in recent periods, analysis of subscriber tenure and churn, key initiatives being taken and comparison to available broker reports. • We engaged our own expert to review the structure of the model, to recalculate the weighted average cost of capital used as the discount rate in the model and to review external evidence for the rate used for cost of disposal. We determined that the rates used by management were within a reasonable range given estimation uncertainty. • We reviewed management's secondary assessment of fair value less costs of disposal based on market capitalisation at balance date. • We obtained and evaluated management's sensitivity analyses to ascertain the impact of reasonably possible changes. For each of the scenarios we tested the mathematical accuracy of the model, assessed whether the changes were reasonably possible and tested the impact of those changes on the valuation.

Independent auditor's report (CONTINUED)

To the shareholders of Sky Network Television Limited

Key audit matter	How our audit addressed the key audit
Management also considered market capitalisation at balance date as a secondary assessment of fair value less costs of disposal, taking into account that market capitalisation does not include any control premium. As a result of the impairment review, the Directors identified an impairment in the carrying value of goodwill at 30 June 2018 and reasonably possible changes in key assumptions that could result in further impairment, as disclosed in note 9.	We reviewed the disclosures in note 9 to the financial statements to ensure they are compliant with the requirements of the accounting standards. As a result of our audit procedures we had no significant matters to report.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not, and will not, express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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 this regard except that not all other information to be included in the annual report was available to us at the date of our signing. Prior to the date of this report we had received and read the Chairman's Letter, Chief Executive's Letter, Financial Overview, Financial Trends and Directors' Responsibility Statement. The Other Information section of the annual report, including Corporate Governance and Company and Bondholder Information, and the Board of Directors section are expected to be made available to us after the date of this report.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 NZ and ISAs 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 consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which 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 shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Leopino Foliaki.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
23 August 2018

Auckland

SKY NETWORK TELEVISION LIMITED

PO Box 9059
Newmarket
Auckland 1149
New Zealand

10 Panorama Road
Mt Wellington
Auckland 1060
New Zealand

sky.co.nz

Director's Declaration

The directors declare that the consolidated financial statements set out on pages 16 to 46:

(i) comply with New Zealand International Financial Reporting Standards

(ii) give a true and fair view of the financial position of SKY Network Television Limited and its subsidiaries as at 30 June 2018 and of their performance, as represented by the results of their operations and their cash flows for the year ended on that date.

In the directors' opinion at the date of this declaration there are reasonable grounds to believe that SKY Network Television Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors and is signed for and on behalf of the Board of Directors.

Dated at Auckland this 23rd day of August 2018.

Peter Macourt
Chairman

John Fellet
Director

SKY Network Television Limited
10 Panorama Road, Mt Wellington
PO Box 9059, Newmarket
Auckland, New Zealand
Tel: +64 579 9999
Fax: +64 525 8324
www.skytv.co.nz

Other Information

Sky Network Television Limited
Year ended on 30 June 2018 (In NZD)

- **Net tangible assets per security**:

  Current period $(0.255): 1

  Previous period $(0.415): 1

- **Control gained over entities**

Not applicable.

- **Loss of control of entities**

Not applicable.

- **Dividends**

  Final dividend payable: $29.2 million

  Record date to determine entitlements to the final dividend: 7 September 2018

  Date final dividend payable: 14 September 2018

  Date interim dividend paid: 23 March 2018

  Total interim dividends paid: $29.2 million

  Date final dividend paid: 14 September 2017

  Total final dividend paid: $48.6 million

  Previous corresponding period – interim dividend (paid March 2017):$58.4 million (ordinary securities)

  Previous corresponding period –final dividend (paid Sept 2016): $58.4 million.

- **Amount per security**

	Amount per security	Franked amount per Security	Amount per security of foreign sourced dividend	Amount per security payable on each dividend to non resident shareholders
Final Dividend	7.5 cents			
Interim Dividend	7.5 cents			
NZ imputation credits - final	2.9167 cents			
NZ imputation credits - interim	2.9167 cents			
Supplementary dividend - final				1.3235 cents
Supplementary dividend - interim				1.3235 cents

- **Details of aggregate share of profits (losses) of associates and joint venture entities**

  Not applicable

- **Accounting standards**

  New Zealand international financial reporting standards used in compiling report.

- **Directors' Details**

  The directors of Sky Network Television Limited at any time during the year are as follows:

Peter Macourt	Chairman
John Fellet	Director & Chief Executive
Mike Darcey	Director (Appointed 19 September 2017)
Derek Handley	Director
Geraldine McBride	Director
Susan Paterson	Director

MEDIA RELEASE

24 August 2018

SKY Television increases underlying profits and controls costs

Strategic commitment to satellite delivery as well as a strong suite of online products to REACH ALL KIWIS

Highlights:

- Underlying net profit of $119.3 million (before Goodwill impairment), an increase of 2.6% on previous year
- Savings in operating costs of $47 million
- EBITDA of $286 million, down 2.2% on FY17
- Shareholder dividend of 7.5 cents per share
- 768,000 customers across satellite and OTT services
- Strategic commitment to satellite delivery as well as a strong suite of online products: **our content reaches all New Zealanders**

SKY Television has today released its results for the financial year to 30 June 2018. Chief Executive John Fellet said that "The results for the year are pleasing. We have managed to increase underlying profits and control costs while implementing a transformational strategy that ensures we keep delivering our great content to New Zealanders in ways that they want."

"SKY is building up a strong suite of online products to meet the needs of all New Zealanders, both now and in the future, while continuing to deliver to our core customer base, particularly those who don't yet have access to fast internet."

"It's a careful balance, but strategically important. Our sport partners know they can rely on SKY to deliver their content to all of their New Zealand fans, in ways that work for each individual. They know SKY won't leave any fan behind."

Financial results

SKY has continued to deliver a solid underlying profit while implementing the strategy. In the financial year to 30 June 2018, SKY's underlying net profit after tax is $119.3 million, an increase of 2.6% on the previous year.

The SKY Board has agreed to reduce the carrying value of SKY's Goodwill asset from $1.43 billion to $1.07 billion. *Please refer to the attached explanation of Goodwill*. When the impairment charge is included in the 2018 results, there is a net loss of $240.7 million for the year. This is a non-cash charge that has no impact on SKY's 2018 cash flows or bank covenants.

"The SKY management team has worked hard to take costs out of the business, and we are pleased to report costs are down $47 million for the year."

SKY also retired $69 million of bank debt in the year, and paid $49 million in tax.

At 30 June SKY had 768,000 customers across satellite and online services. "In December we reported the loss of 46,006 customers for the first six months of the financial year, and it was pleasing to see that churn improved with a loss of only 11,049 in the second half. While it is too early to assess the full impact, the pricing and packaging changes in March 2018 have contributed to this improvement in churn."

"While we always report on churn, it is important to highlight that 768,000 customers choose to pay for SKY's services. By global standards, 40% market penetration for a Pay TV service is significant. Over the next few years we anticipate that more customers will transition from our satellite service to our online products, and our goal is to continue to serve them in ways that best meet their needs and budgets."

Strategic approach to delivering our great content

Mr Fellet said "Our industry is evolving into a world where internet delivery of content will eventually dominate, and we are well placed to transition with it. SKY's investment in Cisco's Infinite Video Platform (IVP) will allow us to offer a viewing experience that is dramatically different to today, and we are on track to deliver new products in the first half of 2019."

"But we know that many New Zealanders – around 240,000 households – don't currently have access to streaming-capable internet. Our significant investment in the satellite for over 20 years has ensured we have a robust and reliable platform, and we will continue to use it to serve all New Zealanders until the evolution to online delivery is complete. Delivering live sport to our nation of rugby, netball, cricket, league, golf, tennis, football and motorsport fans is a responsibility we do not take lightly. Recent experience around the world suggests it will be some time before internet delivery of live sport meets the expectations of all sport fans, and the satellite will keep doing the heavy lifting in the meantime".

Great content

"Our core purpose is delivering great content to New Zealanders. Our strategy is to have exclusive deals with all the best studios and the sports that we know New Zealanders love to watch. Our sport portfolio alone involves over 791 contracts. SKY has the depth and breadth of content to ensure our customers always have something great to watch."

-ENDS

Background – Goodwill asset

The SKY Board has agreed to reduce the carrying value of SKY's goodwill asset from $1.43 billion to $1.07 billion.   The goodwill asset arose on the merger of Independent Newspapers Ltd (INL) and SKY in 2005, and reflected the difference between the fair value of SKY's assets at the time and the price that INL shareholders agreed to exchange their shares in INL for SKY shares.

The SKY Board is required to assess the fair value of intangible assets at each reporting period, and indicated in the Interim Results in March that it would reassess the carrying value of goodwill once there was more information about the impact of the new pricing regime and product offerings on churn, subscriber numbers and ARPU. The Board has decided to impair the asset by reducing the book value by $360 million.

The impairment charge reduces the net book value of SKY equity at 30 June 2018 to $1.03 billion ($2.64/share) compared to $1.33 billion ($3.41/share) at 30 June 2017. SKY shares closed at $2.60/share on 29 June 2018.

For further information, please contact:

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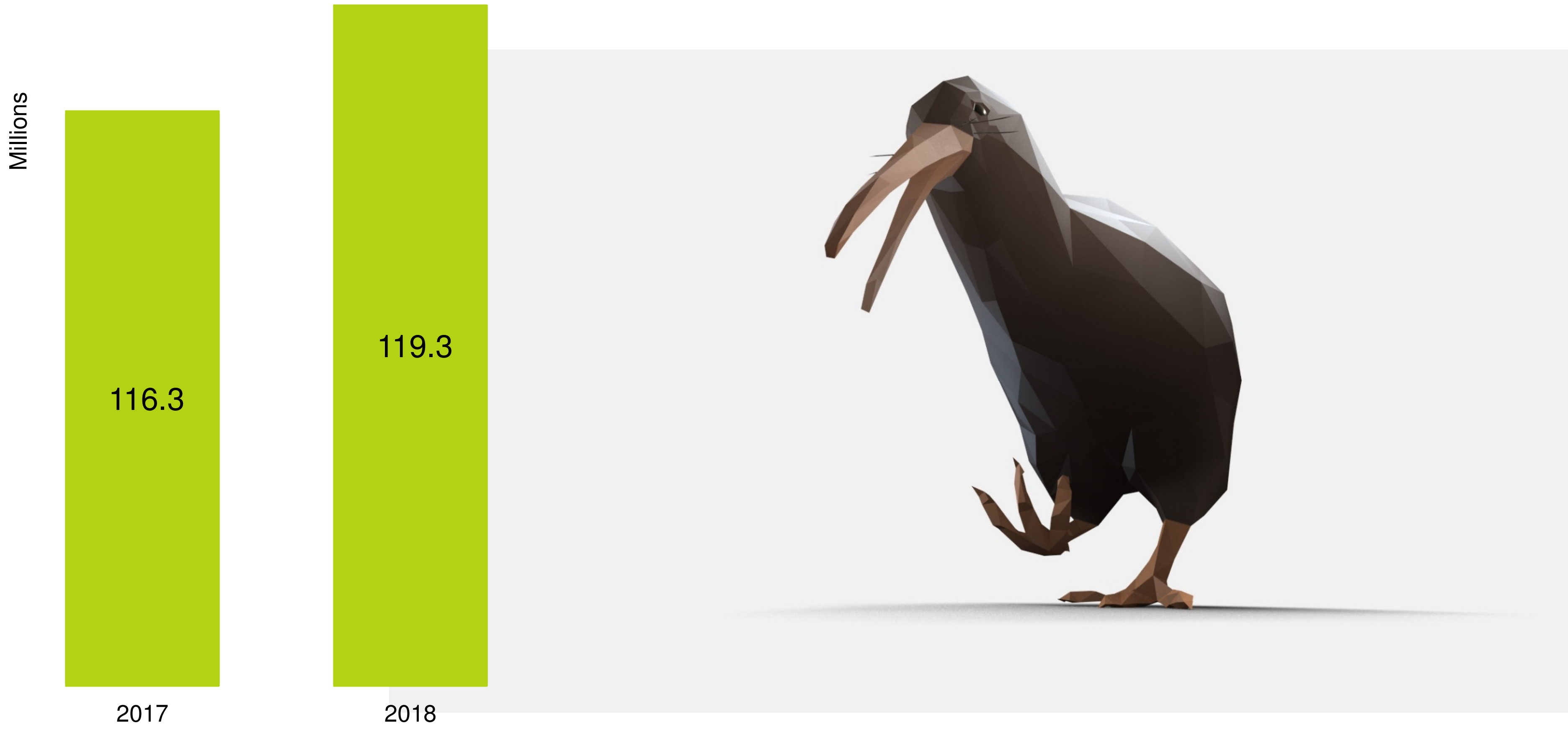
Senior Communications Advisor
+64 21 840 018
leanne.carpenter@skytv.co.nz

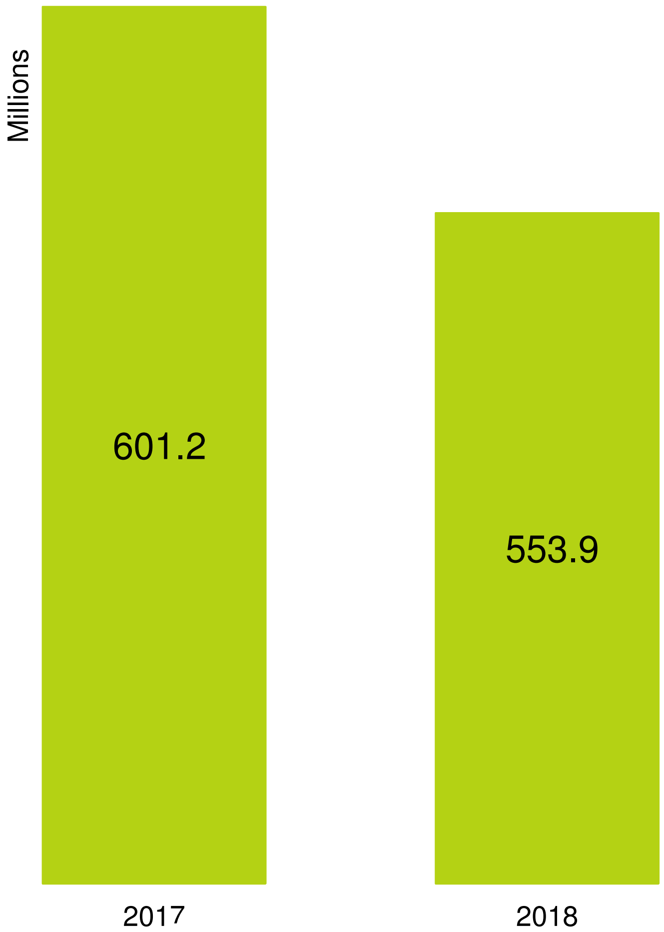
REACHING EVERY KIWI

SKY NETWORK TELEVISION
ANNUAL RESULTS 2018

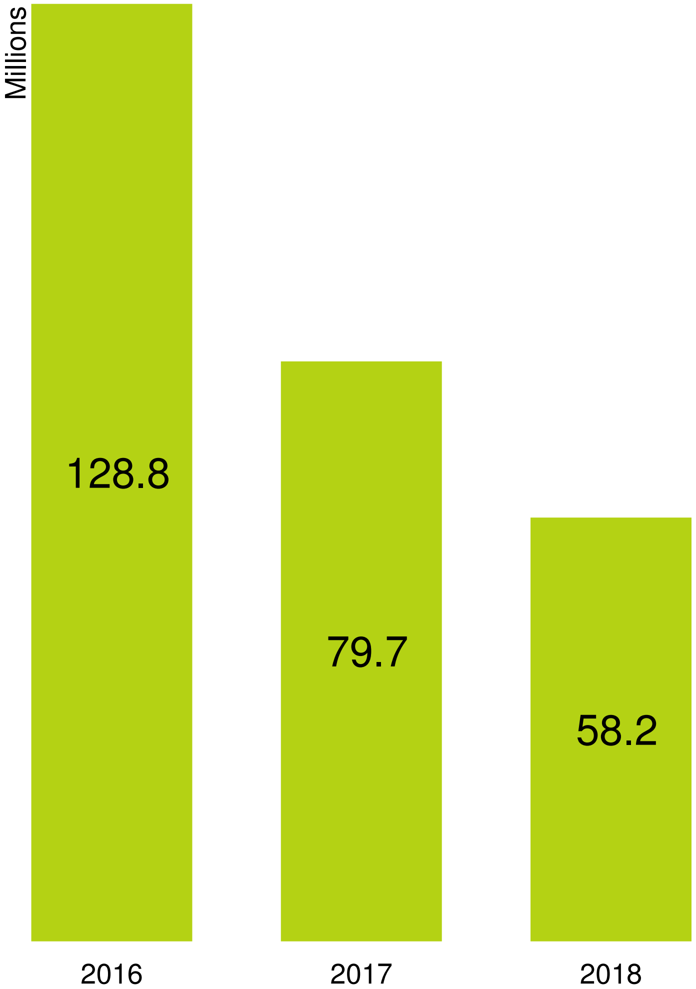
UNDERLYING NET PROFIT



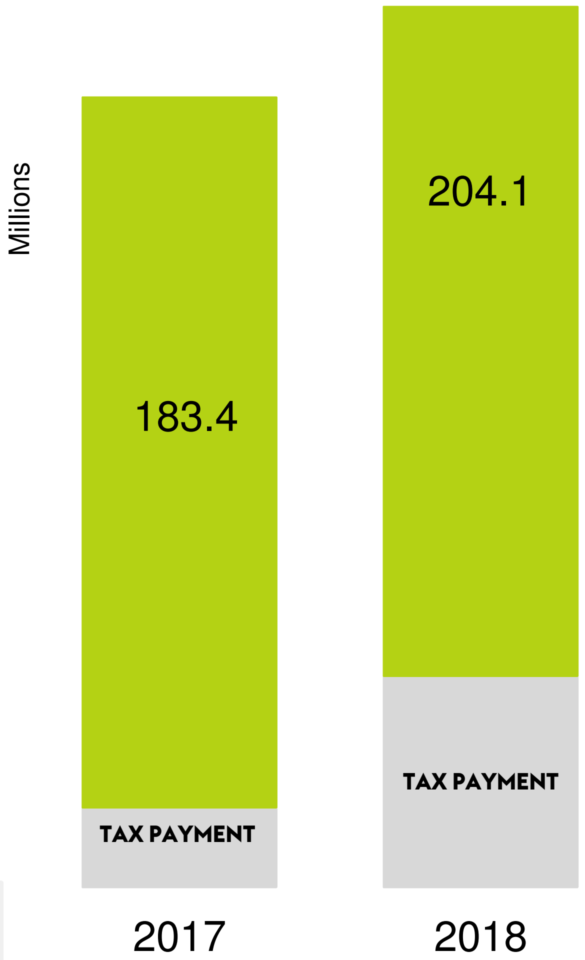
OPERATING COSTS



CAPITAL EXPENDITURE



PRE TAX CASHFLOW



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OUR PLATFORMS REACH CUSTOMERS ACROSS ALL OF NZ

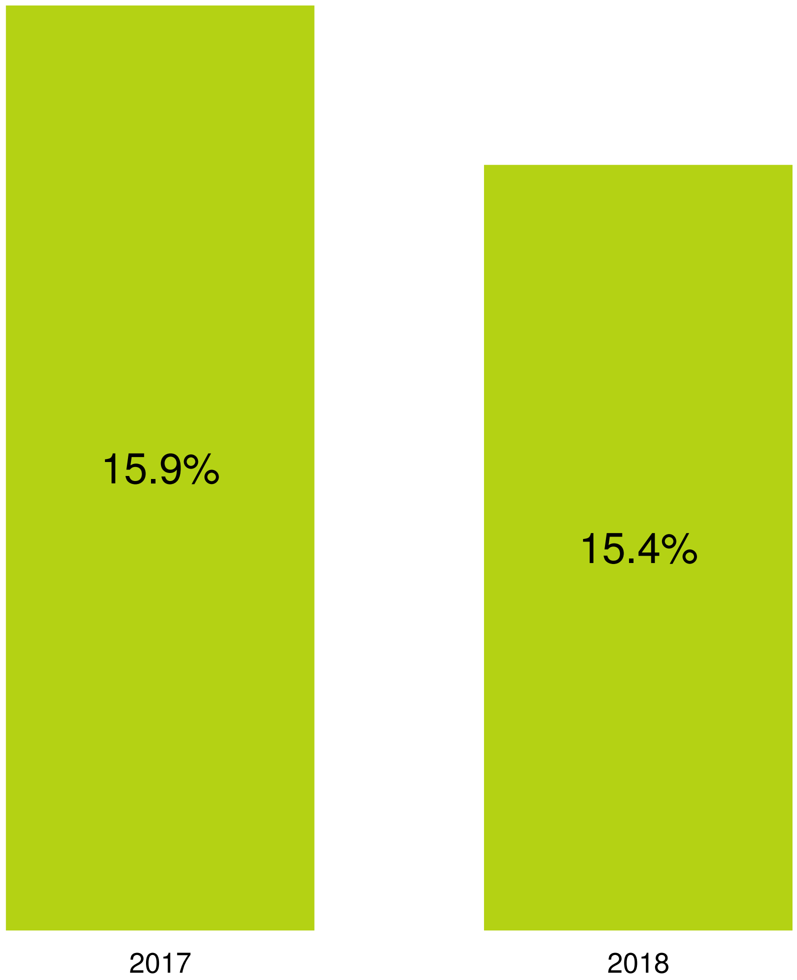
JUNE 2018

767,727

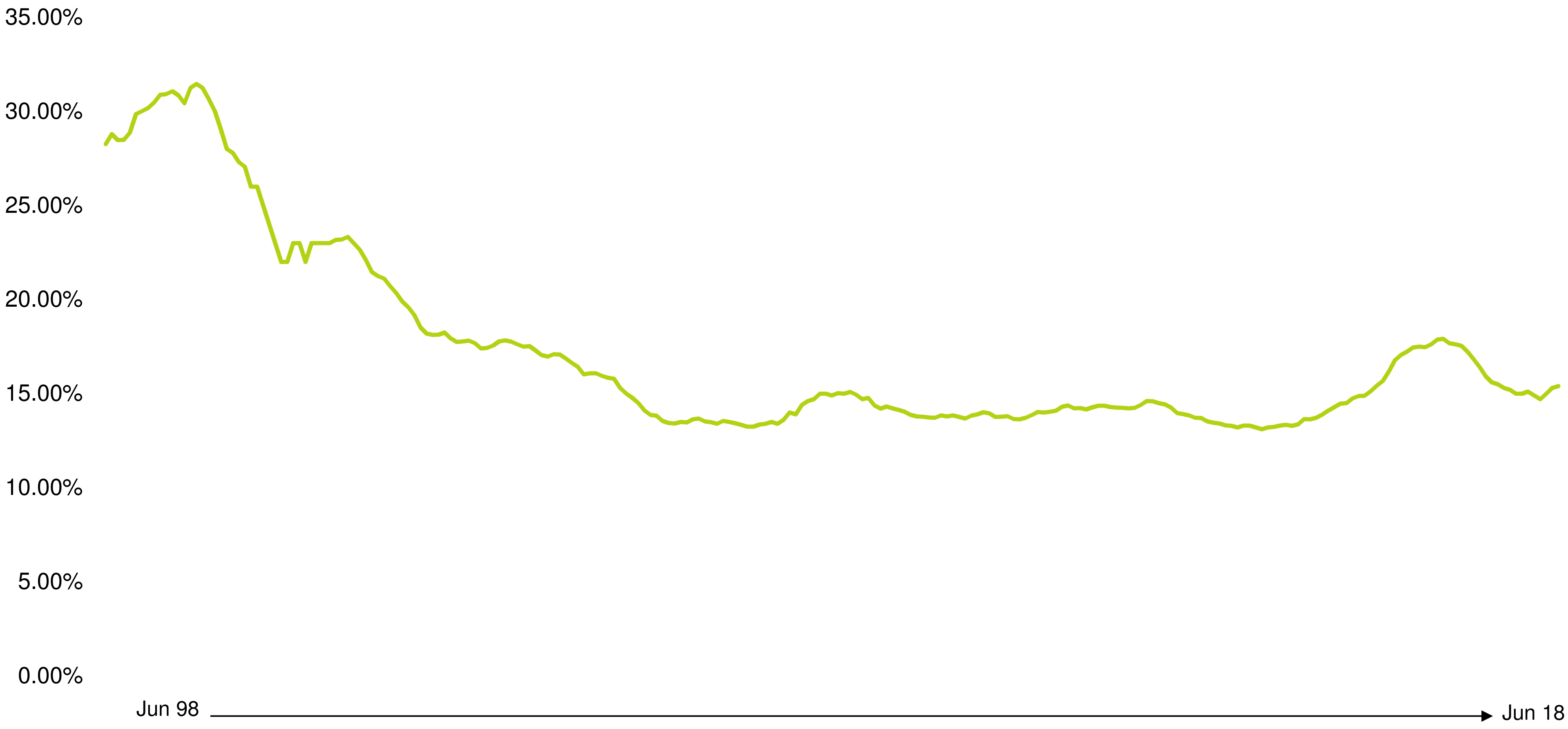
CUSTOMERS

100% NZ Reach

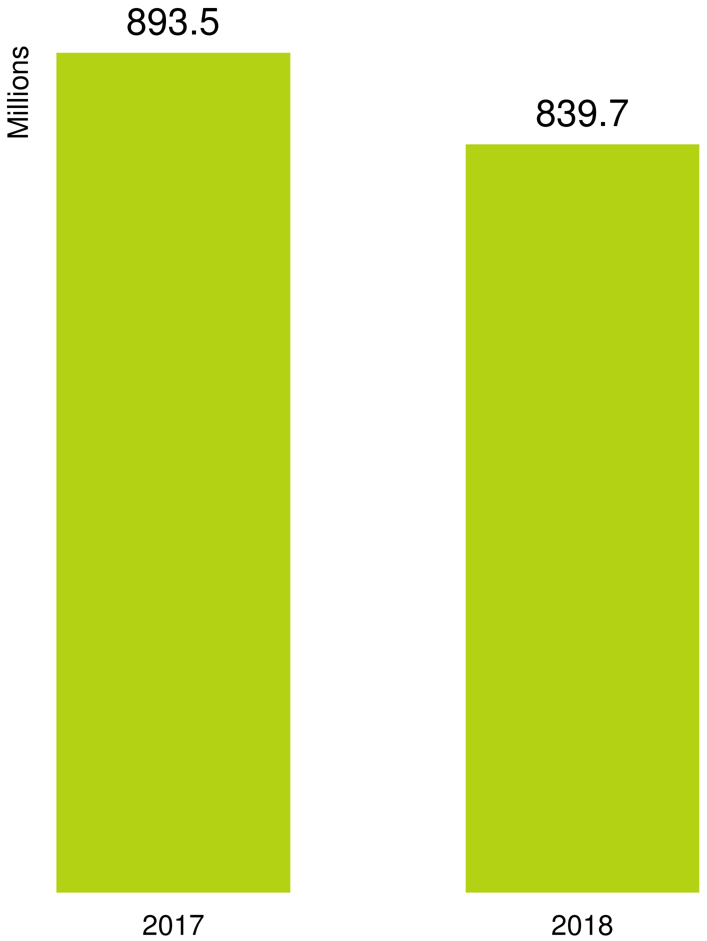
CHURN OF SATELLITE SKY



MOVING ANNUAL CHURN



REVENUE



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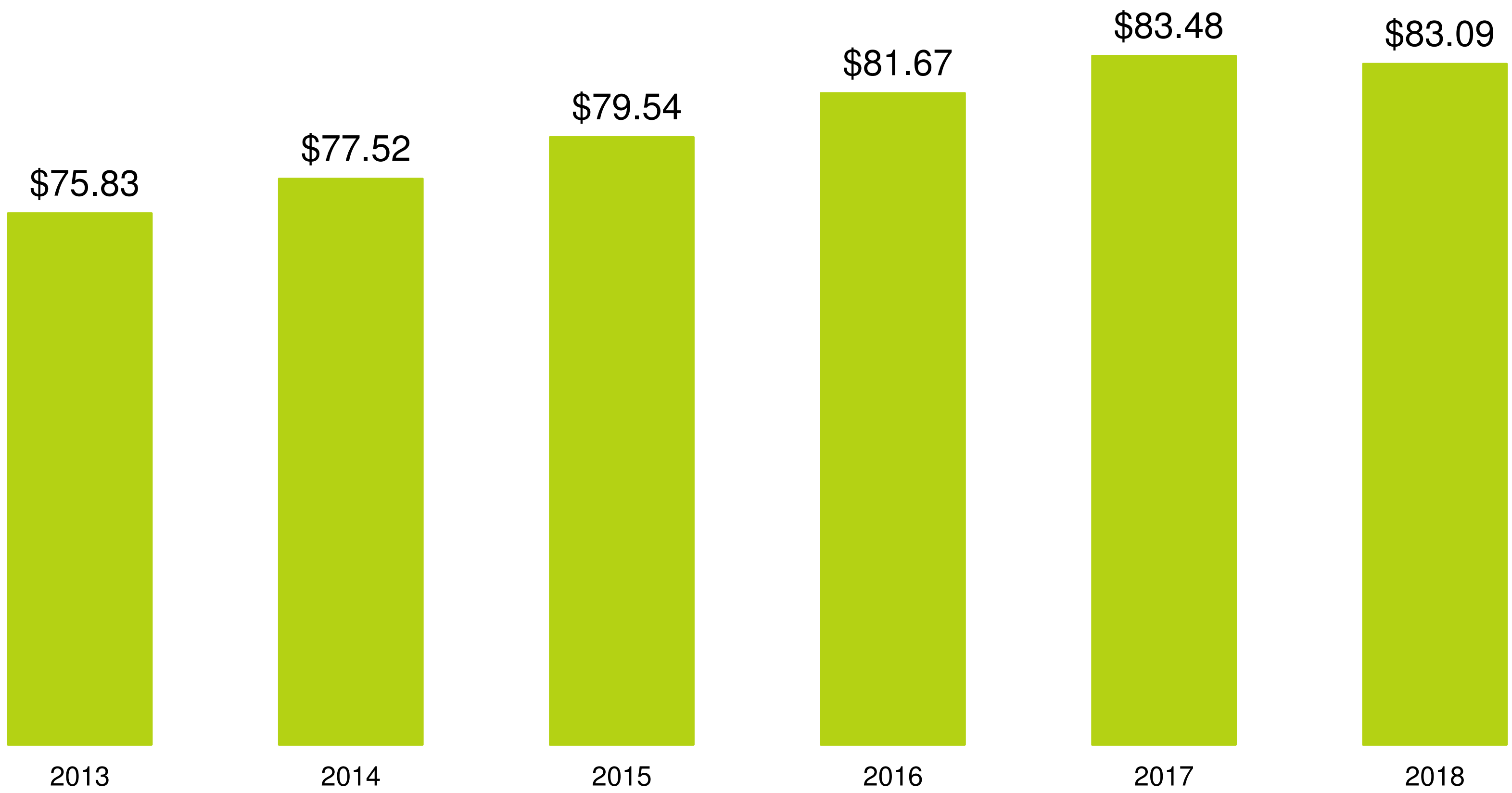
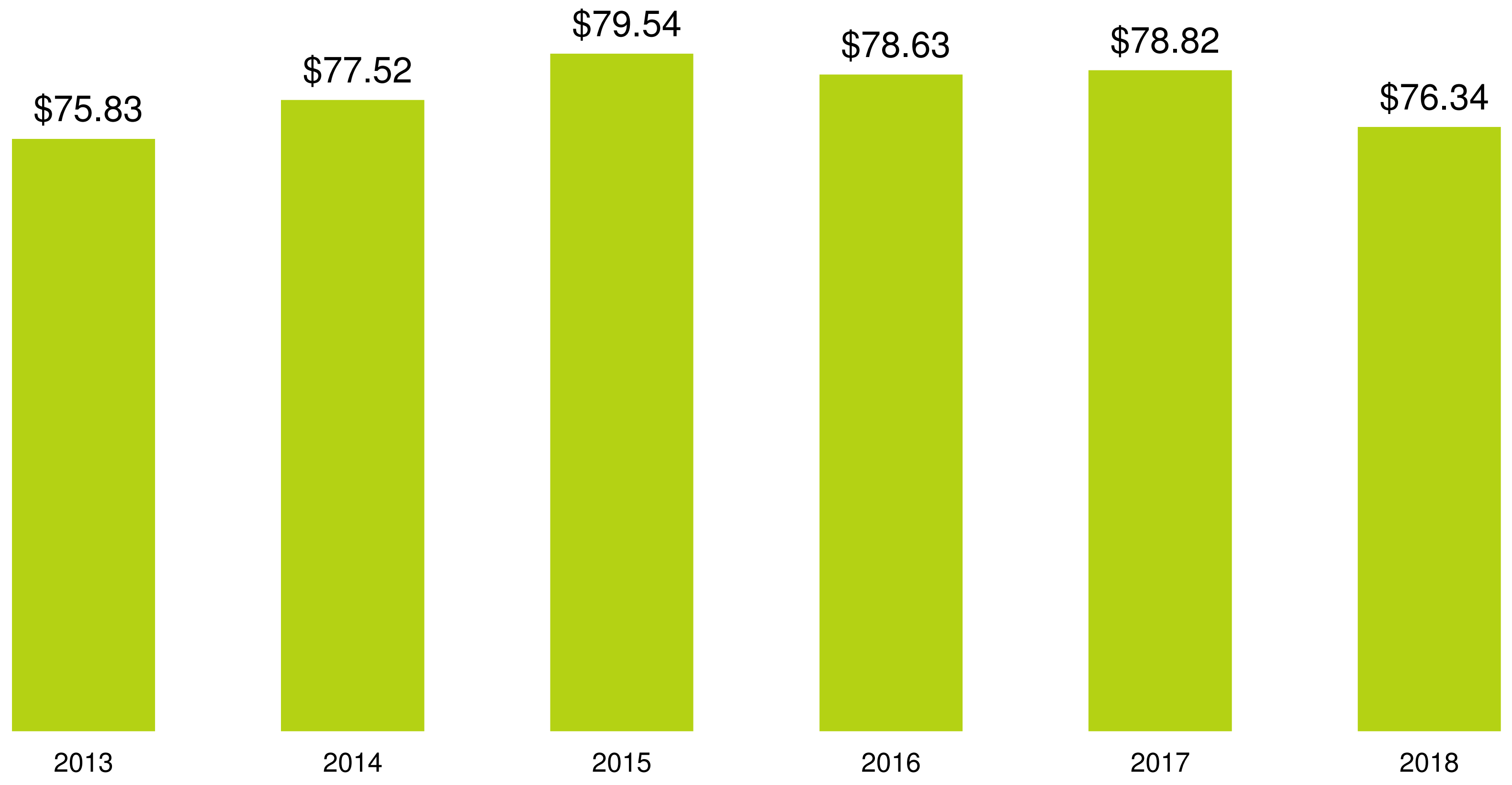
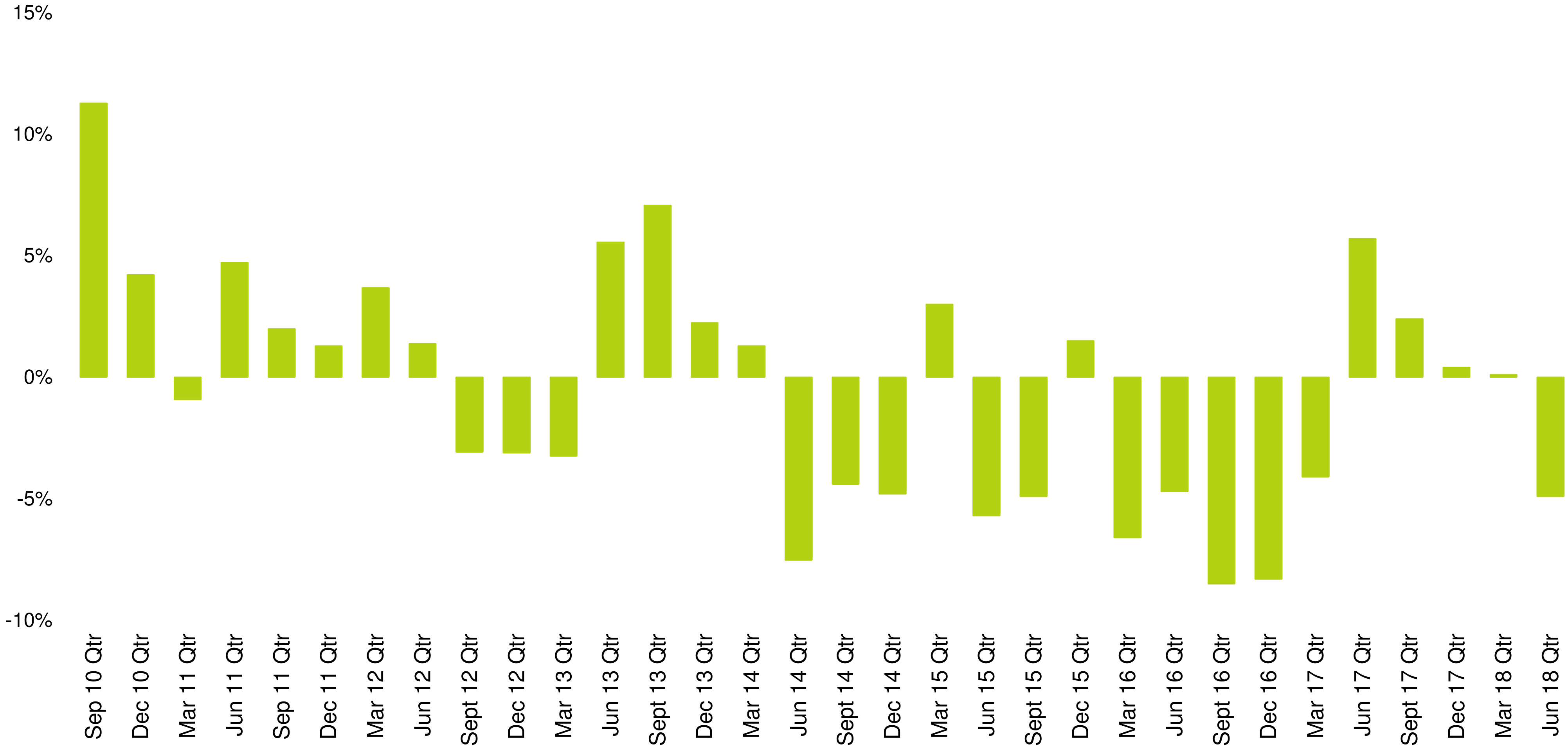
ARPU FROM SKY TRADITIONAL SUBSCRIBERS



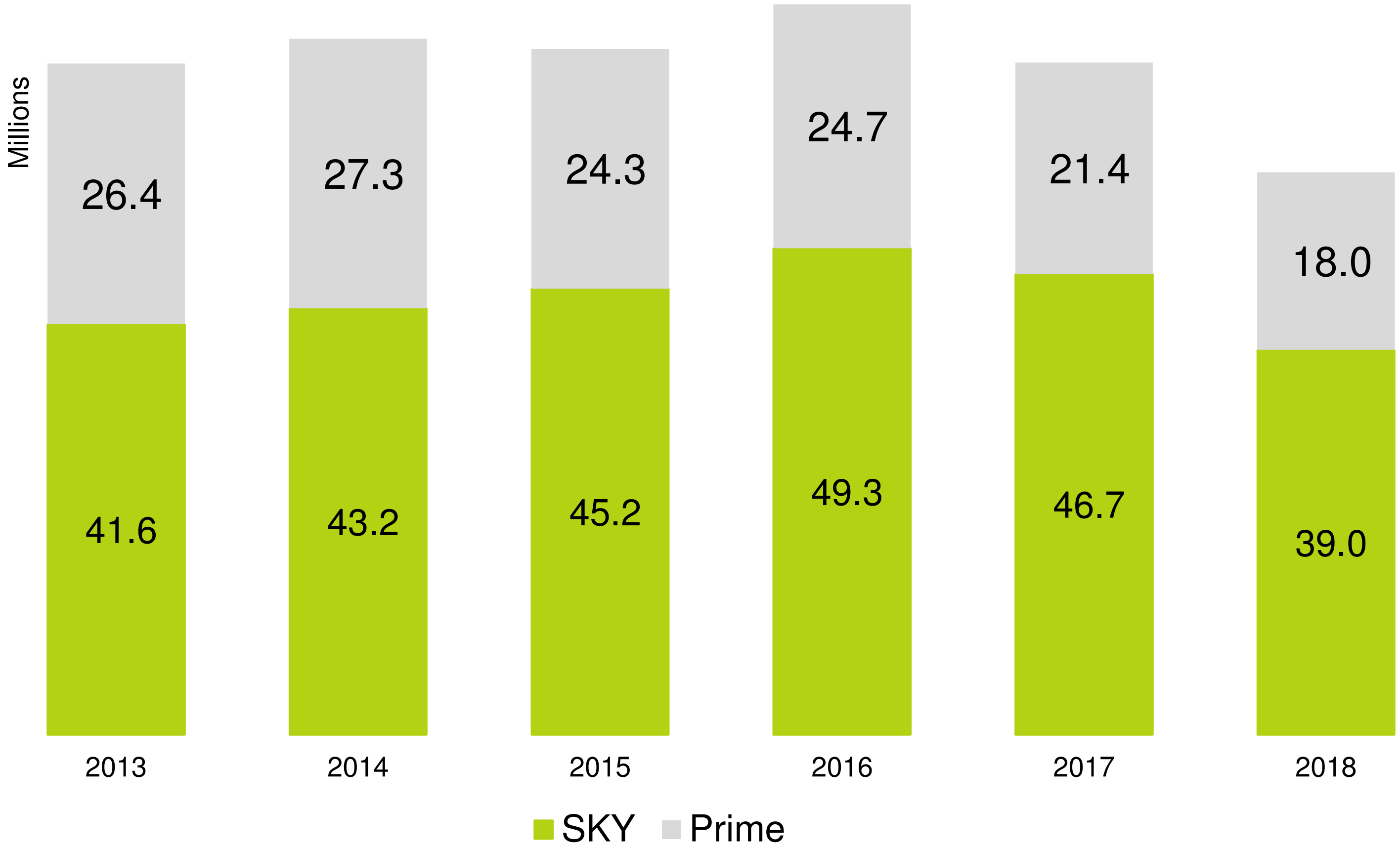
TOTAL ARPU



TOTAL TELEVISION ADVERTISING REVENUE
(YOY QUARTERLY CHANGE)



ADVERTISING REVENUE




NZ On Air
Irirangi Te Motu
Prime
BENEATH
NEW ZEALAND

FINANCIAL DETAIL

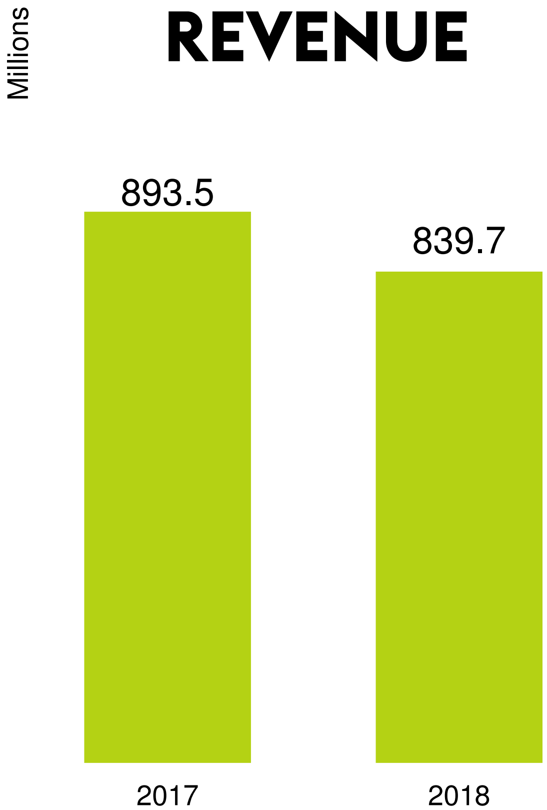
RESULTS SUMMARY

	2017	2018	% Change
Revenue	893.5	839.7	(6.0%)
Operating expenses	601.2	553.9	(7.9%)
EBITDA	**292.3**	**285.8**	**(2.2%)**
Depn & Amort	105.1	102.4	(2.6%)
EBIT	**187.2**	**183.4**	**(2.0%)**
Interest	19.6	17.5	(10.7%)
Tax	51.3	46.6	(9.2%)
Underlying NET PROFIT after TAX	**116.3**	**119.3**	**2.6%**
Impairment of Goodwill	0	360.0	
NET PROFIT/(LOSS)	**116.3**	**(240.7)**	

REVENUE ANALYSIS

	2017	2018	% Change
Core satellite revenue	725.1	681.2	(6.1%)
Other subscriptions	82.2	84.7	3.0%
Advertising	68.1	57.1	(16.2%)
Installation and other revenue	18.1	16.7	(7.7%)
TOTAL REVENUE	**893.5**	**839.7**	**(6.0%)**

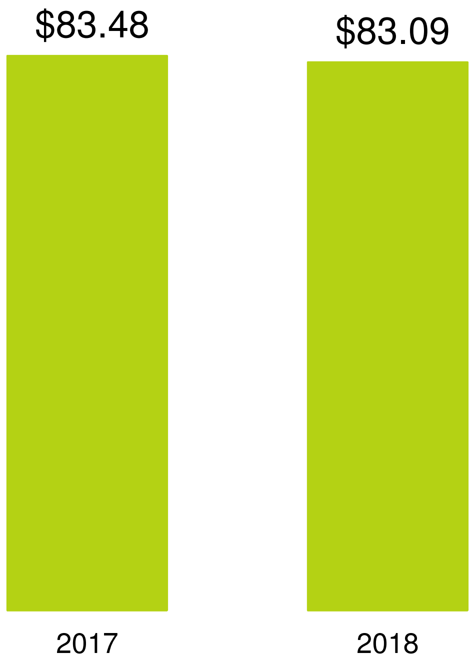
REVENUE



91%

SKY customers have SKY Entertainment

SATELLITE ARPU



EXPENSE ANALYSIS

	2017	2018	% Change
Programming	349.4	328.1	(6.1%)
Subscriber related costs	100.2	83.1	(17.1%)
Broadcasting and infrastructure	97.6	92.0	(5.7%)
Depreciation and amortisation	105.1	102.4	(2.6%)
Other costs	54.0	50.7	(6.1%)
TOTAL EXPENSE	706.3	656.3	(7.1%)

CAPITAL EXPENDITURE ANALYSIS

	2017	2018	% Change
Install	29.3	18.8	(35.8%)
Decoders	19.7	9.2	(53.3%)
Projects	30.7	30.2	(1.6%)
TOTAL CAPITAL EXPENDITURE	79.7	58.2	(27.0%)

OPERATING CASH FLOW

	2017	2018	% Change
Net Cash from operating activities	244.5	213.6	(12.6%)
Net Cash used in investing activities	(79.6)	(58.2)	(26.9%)
FREE CASH FLOW available to Shareholders	164.9	155.4	(5.8%)

FUNDING PROFILE

	FACILITY	DRAWN	MARGIN	MATURITY
Bank Debt	$300m	$131m	145bp	Jul 2020
Bond	$100m	$100m	Fixed rate at 6.25%	Mar 2021

FOREIGN CURRENCY HEDGING

For USD exposures

- 95% hedged for 30 June 2019 @ 0.7165
- 56% hedged for June 2020 year @ 0.7134
- 24% hedged for June 2021 year @ 0.7057

For AUD exposures

- 90% hedged for 30 June 2019 @ 0.9303
- 42% hedged for 30 June 2020 @ 0.9387
- 17% hedged for 30 June 2021 @ 0.9121

Average $US payment rate for Opex for the year *to* June 18 @ 0.7081

DIVIDEND

The Board has declared a fully imputed final dividend of 7.5 cps ($29.2m) to be paid and a supplementary dividend of 1.3235 to be paid to non-residents.

Record date is 7 September 2018.

Payment date is 14 September 2018.

	2018	2017	2016	2015	2014	2013	2012	2011	2010
Interim	7.5	15.0	15.0	15.0	14.0	12.0	11.0	8.0	7.0
Final	7.5	12.5	15.0	15.0	15.0	12.0	11.0	10.5	7.0
Ordinary Total	15.0	27.5	30.0	30.0	29.0	24.0	22.0	18.5	14.0
Special				0	0	0	32.0	25.0	0
TOTAL	15.0	27.5	30.0	30.0	29.0	24.0	54.0	43.5	14.0


UNCHARTED
With Sam Neill
NZ On Air
Irirangi Te Motu
Prime

STRATEGY AND PLANS

OUR STRATEGY

WORLD CLASS CONTENT THAT MATTERS

UNDERSTANDING OUR CUSTOMERS AND DELIVERING GREAT EXPERIENCES

MULTIPLE PROPOSITIONS AND PRICES

SKY

EXCLUSIVE CONTENT

WORLD CLASS CONTENT THAT MATTERS

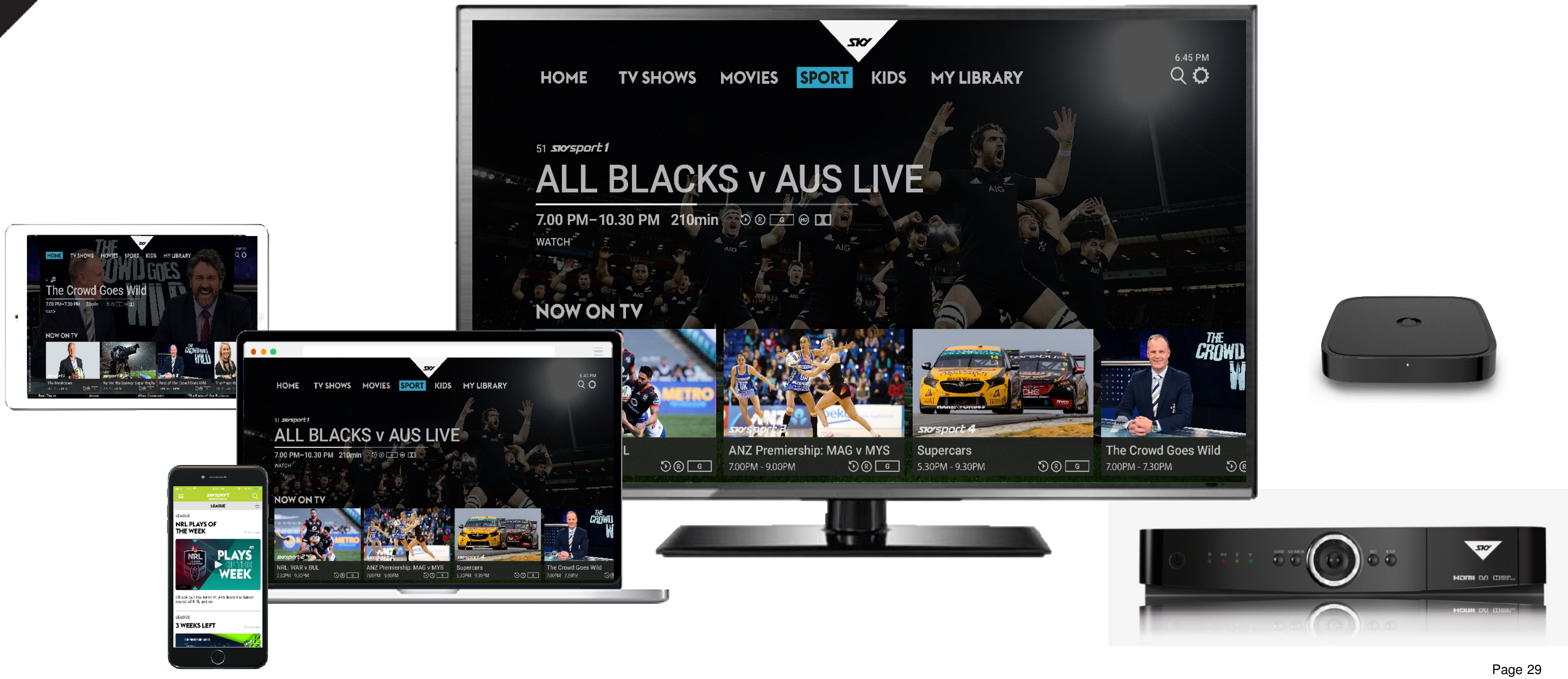
ALL BLACKS®

HBO®

UEFA

IMPROVED CUSTOMER EXPERIENCE

UNDERSTANDING OUR CUSTOMERS AND DELIVERING GREAT EXPERIENCES



REACHING EVERY KIWI WITH OUR RANGE OF PRODUCTS

MULTIPLE PROPOSITIONS AND PRICES

FROM JUST UNDER

$25

ON DEMAND

GO

SKY

FROM JUST UNDER

$12

NEON

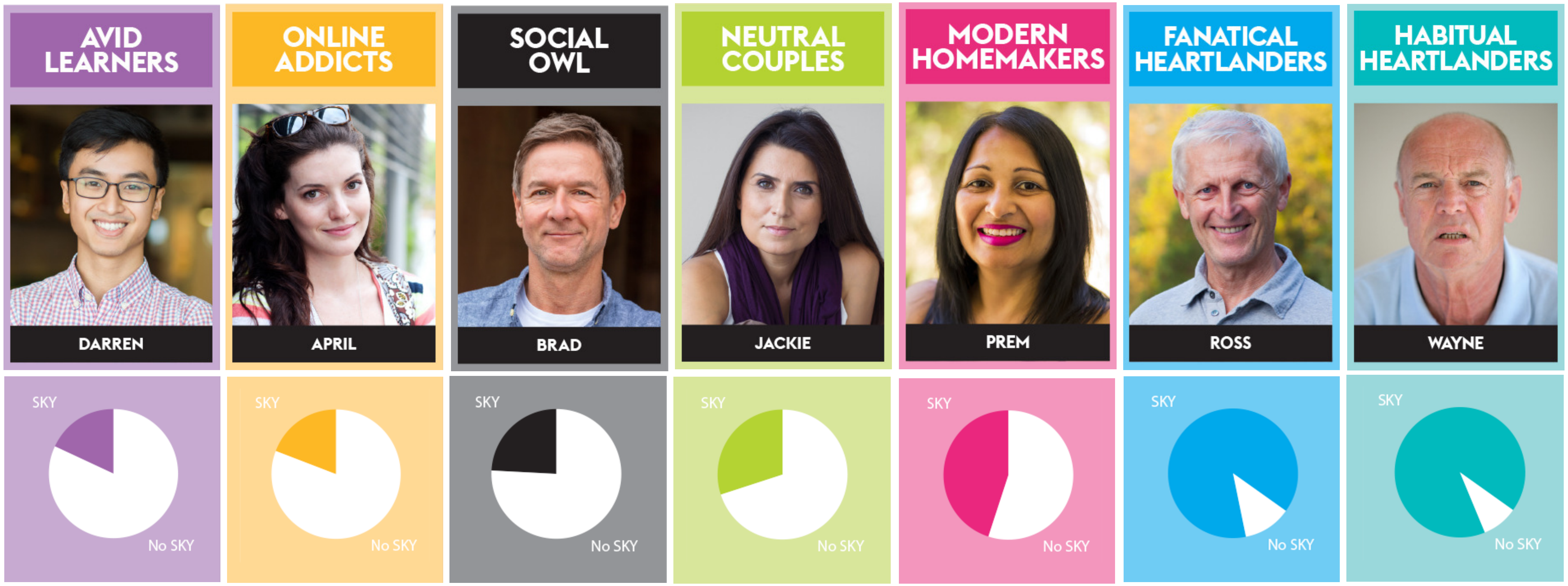
FROM JUST UNDER

$16

FP FAN PASS
STREAMING LIVE SPORT

CONTINUE WORKING WITH OUR PARTNERS

THE SEGMENTS OF SKY CUSTOMERS

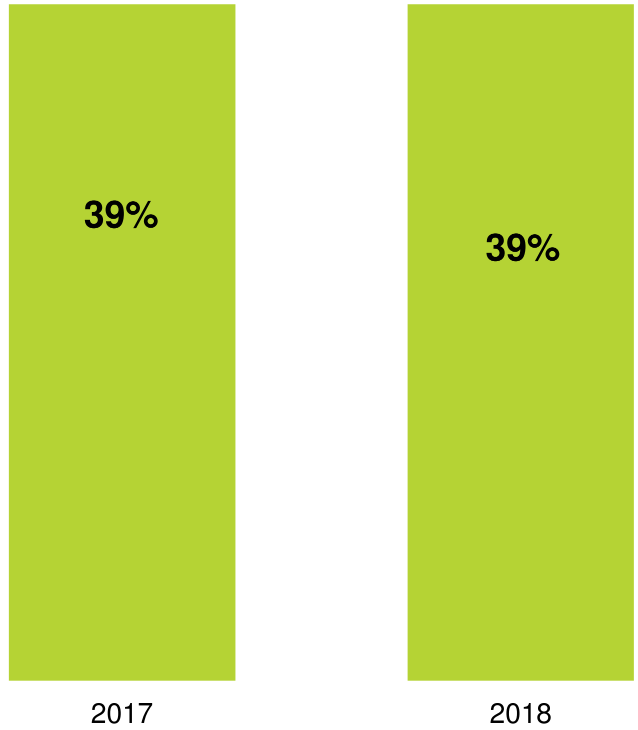


GROW ⟵⟶ **RETAIN**

SKY


BIG PACIFIC
Prime

PROGRAMMING COSTS % REVENUE



CONTENT WARS

PREMIER LEAGUE

VIEWERSHIP ON SKY NZ

AUGUST – MAY 2018

= 0.24%

RECENT DEALS

- UK Super League
- French Top 14
- Guinness Pro 14

- Australian Open Tennis
- Roland Garros

- US Open Golf

- Moto GP
- FIM Speedway
- NASCAR
- Le Mans

- UCI Cycling

BUENOS AIRES 2018
YOUTH OLYMPIC GAMES
YOG DNA

- Youth Olympics

- UEFA Champions League
- UEFA Europa League

- World Snooker Tour

EMMY NOMINATIONS

OVER 200 NOMINATIONS AVAILABLE ON SKY PLATFORMS

INCREASE IN DRAMA

BLACK FERNS NOVEMBER 2018 TOUR

© Photosport.nz

Chicago, USA

Tripleheader at Soldier Field
4th November 2018

Toulon, France

Stade Felix Mayol
9th November 2018

Grenoble, France

Stade des Alpes
17th November 2018

MAORI ALL BLACKS NOVEMBER 2018 TOUR

Chicago, USA

Tripleheader at Soldier Field
4^{th} November 2018

Brazil, South America

11^{th} November 2018

Chile, South America

18^{th} November 2018

ALL BLACKS "END OF YEAR 2018 TOUR"

© Photosport.nz

Tokyo, Japan
Ajinomoto Stadium
3rd November 2018

Twickenham, London
Twickenham Stadium
10th November 2018

Dublin, Ireland
Aviva Stadium
17th November 2018

Rome, Italy
Olimpico Stadio
24th November 2018


SKYsport
Outside Broadcasting Limited.
Mt. Wellington, Auckland.
TARE 22700KG
ABL
AUSTRALIAN
BASEBALL
LEAGUE


NZ On Air
Irirangi Te Motu
Prime
THE
BROKENWOOD
MYSTERIES

KEY MESSAGES

- We've managed to increase underlying profits and control costs while implementing a transformational strategy that ensures we keep delivering our great content to New Zealanders in ways that they want
- We're building up a strong suite of online products while continuing to deliver to our core satellite customer base, particularly those who don't yet have access to fast internet
- Our sport partners can rely on us – we won't leave any sport fan behind
- We have 768,000 customers across our satellite and OTT services, and we appreciate every one of them. In the next few years we anticipate that more customers will transition from our satellite service to our online products, and our goal is to serve them all in ways that meet their needs and budgets
- Underlying profit is up 2.6% on last year ($119m) and we managed to take $47m of costs out of the business. When the Goodwill impairment is applied to the accounts we end up with a $240.7m net loss, but it's important to understand the context of the Goodwill issue and to note that it has no impact on our cash flows or bank covenants.

REACHING EVERY KIWI

SKY NETWORK TELEVISION
ANNUAL RESULTS 2018