



Appendix 4E Release to ASX under rule 4.3A

**Full Year Information for Sky Network Television Limited for the
year ended 30 June 2017**

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Results for announcement to market

Sky Network Television Limited Year ended on 30 June 2017 (In NZD)

Total operating revenues of \$893,485,000 have decreased \$34,715,000 from the previous year, which is a 3.7% decrease.

Net profit of \$116,344,000 has decreased \$30,779,000 from the previous year, which is a 20.9% decrease.

Net profit after tax attributable to equity holders of \$116,026,000 has decreased \$30,692,000 from the previous year, which is a 20.9% decrease.

The results include one off costs of \$2,145,000 incurred in relation to the planned acquisition of Vodafone NZ.

Dividends	Amount per security	Franked amount per Security
Final Dividend (payable September 2017)	12.5 cents	N/A
Interim Dividend (paid March 2017)	15.0 cents	N/A
Final Dividend (paid September 2016)	15.0 cents	N/A
Previous corresponding period – Interim Dividend (paid March 2016)	15.0 cents	N/A
Previous corresponding period – Final Dividend (paid September 2015)	15.0 cents	N/A
Record date for determining entitlements to the Final Dividend	5 September 2017	

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



FINANCIAL STATEMENTS JUNE 2017

SKY NETWORK TELEVISION LIMITED

CHIEF EXECUTIVE'S LETTER



Dear Shareholders,

It is my pleasure to present to you my 16th annual shareholders' letter. The financial statements, as always, will present a financial snapshot of the business. My goal with this letter is to give you an insight into your company and the industry it operates in. I will attempt to do this in a form that will suit the needs of the individual investor as well the institutional one.

Because of competitive tensions I cannot always go into as much detail as I would like, but rest assured identifying the problem is only the first step for your management team. We are firm believers that when the winds of change blow, you need to build windmills not shelters.

COMMERCE COMMISSION AND VODAFONE

What a difference a year makes. A year ago my letter covered the pending merger with Vodafone New Zealand. I will not waste time lamenting over what I think was a flawed decision by the Commerce Commission. It was the original desire of both companies to legally appeal the decision, despite the torturous and expensive appeal process, which would still require another shareholder vote after another negotiation round over changing valuations of the two companies. However, as time went by it became apparent that we could action many of the opportunities and synergies through commercial agreements without the escalating costs of a merger. Some of these are in the market now, and you will see further proof points of the closer working relationship in the foreseeable future.

EXPLOSION OF CONTENT OFFERINGS AND THE RISE OF "PRESTIGE DRAMA"

Our team knows of every scripted series produced in English across the world. In 2012, 266 series were produced. This year the figure reached 455 series. If every series in planning as I write this letter actually gets made, the figure should jump to 534 series next year. The bulk of this increase has been in dramas, and particularly a "new species" of content called Prestige Drama.

It is hard to define Prestige Drama but you know it when you see it. There are dramas you can watch while you sit on the couch with a laptop answering

emails. But Prestige Dramas capture your undivided attention. They are like novels. You wouldn't start the series in episode 3 any more than you would start a novel with chapter 3. You want to view all the episodes and you want to see them in order. These Prestige Dramas are attracting the biggest Hollywood names. The best writers, directors and actors are all attracted to these productions which reinvent the traditional TV series to a 12 hour movie.

Fortunately we picked up the trend of Prestige Drama early and started investing on the ground floor before anyone else in New Zealand. As a result our customers are enjoying excellent shows like Game of Thrones, Westworld, Fargo, The Americans, Billions, Doctor Who, Twin Peaks, Big Little Lies, Taboo, Legion, Feud, Genius, Homeland, Ray Donovan and The Leftovers to name my favourites this year.

VIDEO ON DEMAND

Globally, the roll out of broadband and the conversion of analogue to digital has opened the door to numerous new business models. Content is now being bundled to sell electricity, internet and online delivery services. New entrants are attempting to use content to drive new business models. They include:

- Subscription Video on Demand (SVOD) where subscribers pay a monthly price to access a pool of content on demand. These SVOD models can be as broad as Netflix or as narrow as the WWE Network which is for professional wrestling aficionados.
- TVOD or Transactional Video on Demand models where you pay an amount based on the content you watch on a programme by programme model. Most often this relates to movies, but is also used for series and in particular for sports and events.
- AVOD or ad-based models that don't require a subscription fee, but you pay with your eyeballs viewing ads instead of your credit card.

Most of these new models work on two new technological advancements – abundant, inexpensive and universally available fast broadband; and VOD.

Unsurprisingly, younger viewers are leading the VOD change. An organization called Thinkbox carried out a study called 'Truth about Youth',

comparing 16 to 24 year olds with all individuals. 30% of the focus groups watched videos, mostly VOD, on tablets and smartphones, double that of the average person. The study included play-back, VOD, live TV, online viewing services, DVD's, and SVOD services.

Before I go further, it is worth noting that traditional linear viewing is still the most dominant way people watch television and will remain so for some years. Linear TV has been holding remarkably steady even as online programming manages to capture an increasing amount of our time. Clearly, then, we're not witnessing a direct or clear-cut shift from linear to online yet.

But what we are witnessing is a transition, and at SKY we are clear that VOD is the future. It is already the most disrupting force in television viewing, for several reasons:

- Linear channels pick up a great deal of fortuitous viewing in the "lean back" world. Popular shows provide great lead-ins for the next show in the schedule. In the VOD world viewers do not passively stay on one channel. They make a deliberate choice for their next programme, tee it up and start watching.

In the multichannel world that traditional Pay TV platforms have operated in, customers tend to channel surf, find something interesting and watch it. In the VOD world, provided curation is done correctly, surfing does not exist because you have a list of shows you want to watch.

- VOD models with strong recommendation engines can have a competitive edge because you can buy far less content than a traditional Pay Television platform. Using curation and analytical viewing statistics you can surface just the right content.

A good example is NEON which is one of the most content rich SVOD services in New Zealand. As I write this, NEON has about 4,000 hours of content available to view. By contrast, the typical 100 channel Pay TV platform has to program channels for 24 hours a day 365 days a year, meaning hundreds of thousands of hours of content a year. Clearly SVOD models can purchase far less content a year than the traditional Pay TV platform.

VOD will someday replace linear, make no mistake about it. But don't assume the decline of linear means the decline of viewing, as quite the opposite is happening. People are watching just as much content as ever before, but they are watching it in new ways.

In spite of what the news media would have you believe, no New Zealand based media firm has embraced VOD more than SKY, from the launch of our MY SKY boxes (which allowed customers to convert linear content to VOD) to the more recent launches of our NEON, FAN PASS and SKY On Demand services. Right now the new platforms are challenging both technically and financially. But so was the Cable TV industry when I started my career.

While now is not the time for a massive conversion of our core business, as a significant number of our customers still rely on our satellite-delivered service for their sports, news and entertainment, we are embracing the opportunity to compete in new media models.

We are advancing VOD on several fronts. Our customers have opted to connect 49.6% of our MY SKY decoders to their home wi-fi systems. This connection gives them access to 9,000 pieces of content. We call this service SKY On Demand and last month 775,000 pieces were downloaded by customers. Keep in mind most of these customers already have MY SKY hard drive decoders where 143 million hours are recorded each month to watch later on demand.

In addition, we have our SVOD service, NEON. In the month of July alone we had 1.7 million requests for individual movies or episodes.

STRATIFICATION ON CONTENT

When I was a young man growing up in the 60s, I was listening to the Beatles while my parents listened to Frank Sinatra. While we each had our music preferences we easily could identify each other's favourite artist as well. Today I suspect this would be impossible and to a large degree video content is much the same way. A good example is looking at the weekly list of the most downloaded programmes. I get two lists, one for our traditional satellite subscribers who trend older, and NEON which tends to be younger viewers. There are exceptions like Game of Thrones, which appears high

on both lists. But reviewing the list you can easily determine which list came from baby boomers and which list came from millennials. You also see a wide age split on our different basic channels. VICELAND, E!, MTV and Comedy Central have our youngest viewers while Sport, News Channels and UKTV slant older.

Our capabilities to understand our customer segments and their personal preferences continue to unlock real value for your company and over the year ahead you will see further examples of this work.

STRATIFICATION OF DEVICES

The range of different devices that people use to watch TV are almost as diverse as the range of content. At one time our main concern was staying up with the latest and most expensive television set in a Media Room. Now we have to plan for everything from a two metre projection screen that is showing an ultra-high definition picture to a smart phone.

The younger the viewer the less likely it is for them to watch their content on a television. Instead they will watch their content via an internet delivery system. The term for this is OTT or "over the top".

At SKY we believe we have to offer content where and how the customer wants it and to this we launched FAN PASS which offers our Sports tier on an OTT basis for a monthly fee. In addition we offer SKY GO which delivers a number of our channels on an OTT basis to service the viewing needs of SKY subscribers who are not at home.

At one time all we worried about was getting a picture to a decoder. Now, in addition, we deliver to mobile phones, iPads, computers, Chromecast, Smart TVs, pucks, gaming consoles and Apple TVs.

PIRACY

Piracy has become our biggest competitor. I entered the industry in 1976 and the first meeting I went to was on piracy. The industry has played a cat and mouse game with pirates since the start of pay television.

However, theft of service has become more sophisticated and commonplace at the same time. The big problem is the increasing ease by which pirated content is accessible. Devices pre-

loaded with piracy software enable users to access pirated content stored on servers overseas, from the comfort of their living room. There are people who have turned the distribution of these devices into a business, positioning themselves as alternatives to legitimate providers, despite paying nothing for the rights to the content they are promoting.

There is a lot being done to combat piracy globally, with successful prosecutions against distributors, devices and pirate websites. SKY has taken legal action in New Zealand as well.

There is an even more subtle form of piracy going on by companies who should know better. The newspaper industry, like all traditional media, is facing disruption from the digital world. In an attempt to reinvent themselves they are developing their online presence. This makes perfect sense. As more of their customers access their news online they can leverage their news-gathering to populate their sites with stories with their greatest assets – their reporters.

But sadly, to save money, there is a trend of news media taking clips of the best parts of our SKY Sport content and placing them on their websites without permission. They do this without any compensation to the sporting codes or SKY. It is common for these sites to clip highlights of key sporting events and put them online within minutes of them happening, almost always with ads (for which they receive revenue) wrapped around them. This is tantamount to SKY starting a 24 hour News Channel and instead of hiring reporters or paying for the use of a news service, merely clipping articles out of the newspapers without paying anything for copyright and having presenters read them out.

We support news organisations' ability to use material where reasonably necessary to report current events, and indeed this can even act as promotion of sports events on SKY. However, the current conduct by news outlets goes much further, and is a planned and regular exploitation of our content we pay for.

After months of attempted negotiations with the news media, who we believe are violating our copyright, we were left with no alternative than to go to court for a legal remedy. This was not an easy decision to make.

The American humourist Mark Twain once said "Never pick a fight with people who buy their ink by the barrel." I certainly understand this quote now more than ever. The media companies in question have spent a lot of effort running every negative article they can find about SKY, some of which sadly are justified, but many are not. I suggest that this context is worth remembering the next time you read an article or opinion piece that appears to have a strong bias against SKY.

OUTLOOK

I hope this letter has given you a sense of some of the challenges and opportunities facing your business and our industry. As I said at the outset, your management team is committed to embracing the changes sweeping through the industry, and delivering the best entertainment and sport content to our customers in the many different ways that individuals want it. We are in for an exciting year.

Please note in your diaries that the AGM will be held on 19 October 2017 at the Sofitel Hotel, 21 Viaduct Harbour Avenue, Auckland commencing at 2pm. I look forward to talking with you there.



John Fellet
Chief Executive Officer

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FINANCIAL OVERVIEW

SUMMARY

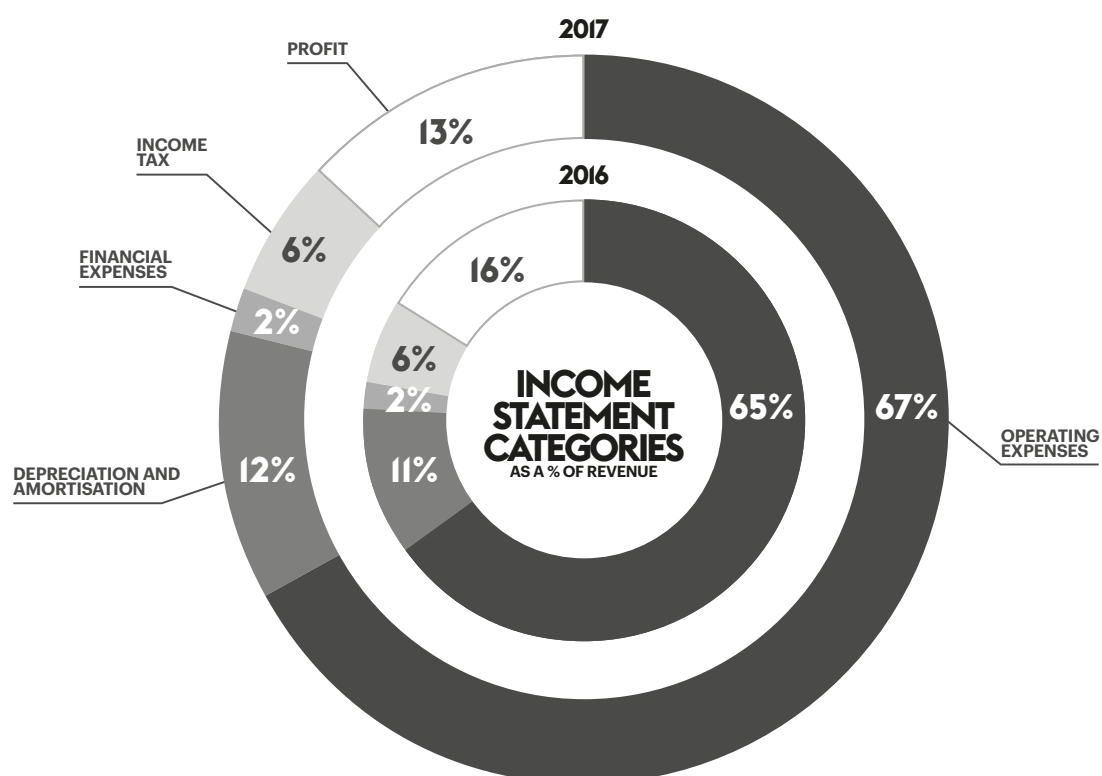
The net profit after tax for the year ended 30 June 2017 is \$116.3 million, a decrease of 20.9% on the previous year's net profit after tax of \$147.1 million.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") decreased by 10.1% to \$292.3 million. Operating expenses include costs relating to the acquisition of Vodafone NZ of \$2.1 million (prior year \$13.4 million).

The results are summarised as follows:

For the years ended 30 June

IN NZD MILLIONS	2017	2016	% inc/(dec)
Financial performance data			
Total revenue	893.5	928.2	(3.7)
Total operating expenses	601.2	602.9	(0.3)
EBITDA	292.3	325.3	(10.1)
Less			
Depreciation and amortisation	105.1	100.2	4.9
Net finance costs	19.6	20.1	(2.5)
Net profit before income tax	167.6	205.0	(18.2)
Income tax expense	51.3	57.9	(11.4)
Profit after tax	116.3	147.1	(20.9)



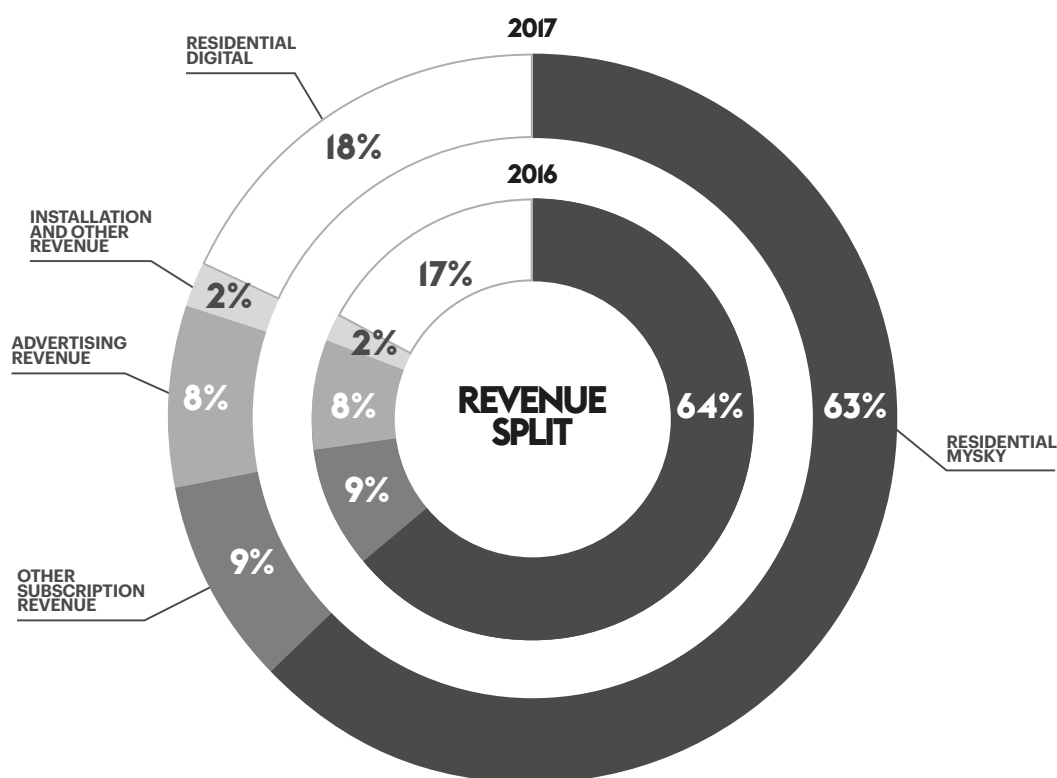
FINANCIAL OVERVIEW (CONTINUED)

REVENUE ANALYSIS

SKY's total revenue decreased to \$893.5 million, as follows:

For the years ended 30 June

IN NZD MILLIONS	2017	2016	% inc/(dec)
Residential – Digital	157.2	160.3	(1.9)
Residential – MYSKY	567.9	592.8	(4.2)
Other subscription revenue	82.2	79.3	3.7
Total subscription revenue	807.3	832.4	(3.0)
Advertising	68.1	74.0	(8.0)
Installation and other revenue	18.1	21.8	(17.0)
Total other revenue	86.2	95.8	(10.0)
Total revenue	893.5	928.2	(3.7)



Residential subscription revenue decreased by 3.7% to \$725.1 million due to fewer satellite customers and a lower uptake of premium services (Sports and Movies) and lower pay-per-view buys.

Other subscription revenue includes commercial revenue earned from SKY subscriptions at hotels, motels, restaurants and bars throughout New Zealand, revenue derived from transmission of programming for third parties and revenue from other subscriptions services such as NEON, FAN PASS and IGLOO. This revenue increased 3.7% to \$82.2 million in 2017 due mainly to an increase in subscriber numbers for NEON and FAN PASS.

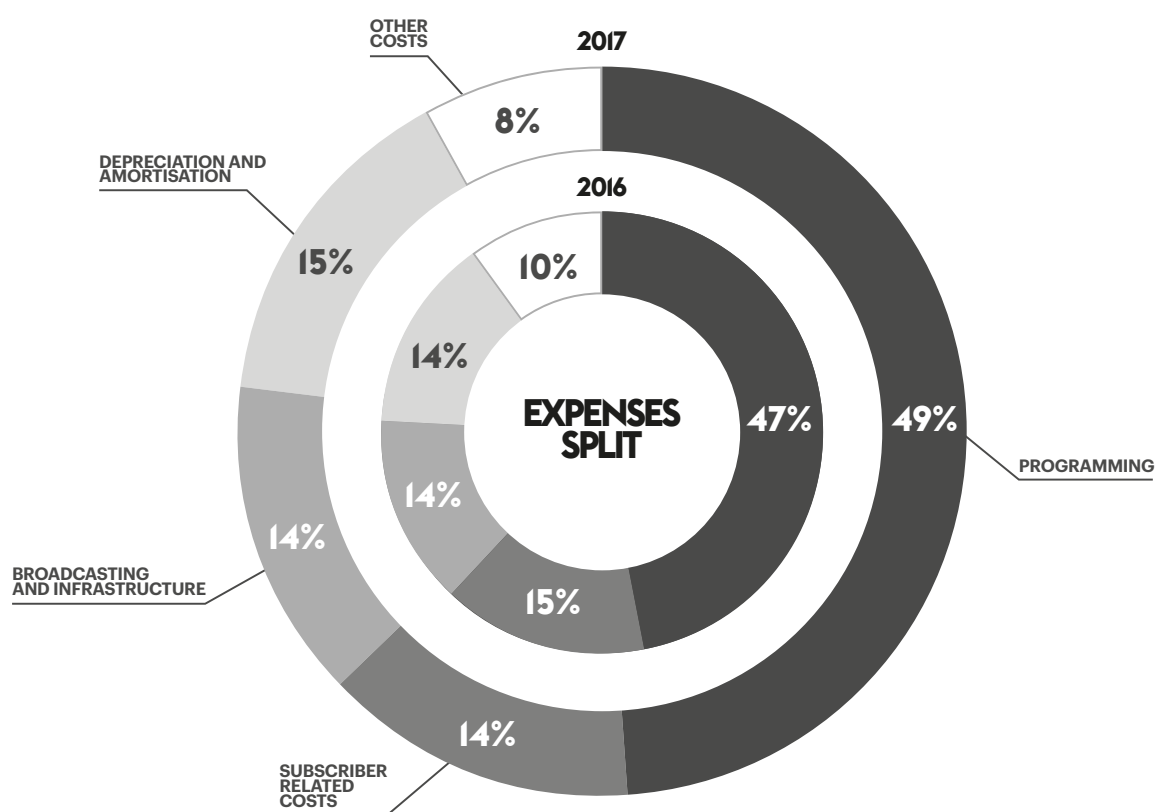
Advertising sales revenue decreased by 8.0% to \$68.1 million in 2017. Pay television advertising revenues decreased from \$49.3 million in 2016 to \$46.7 million in 2017, a decrease of 5.3% whilst Prime revenues decreased from \$24.7 million in 2016 to \$21.4 million in 2017. Prior year results were higher than normal due to additional revenue from the Rugby World Cup.

Installation and other revenues decreased by 17.0% to \$18.1 million in 2017. This is mainly the result of fewer installations undertaken.

EXPENSE ANALYSIS

A further breakdown of SKY's operating expenses for 2017 and 2016 is provided below:

IN NZD MILLIONS	2017	2017 % of revenue	2016	2016 % of revenue	% inc/(dec)
Programming	349.4	39.1	331.1	35.7	5.5
Subscriber related costs	100.2	11.2	106.3	11.5	(5.7)
Broadcasting and infrastructure	97.6	10.9	96.0	10.3	1.7
Other costs	54.0	6.0	69.5	7.5	(22.3)
Depreciation and amortisation	105.1	11.8	100.2	10.8	4.9
Total operating expenses	706.3	79.0	703.1	75.8	0.5



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 increased by \$18.3 million and equate to 39.1% of revenue in 2017, from 35.7% in 2016. The higher programming costs in 2017 included the rights costs of the Summer Olympics, the PGA Golf and Americas Cup in 2017 as well as a full year's impact of the new SANZAAR contract that commenced on 1 January 2016 and costs relating to On Demand content and new channels such as "VICELAND".

A significant proportion of SKY's programme rights costs are in Australian dollars (AUD-26% of rights costs) and United States dollars (USD- 53% 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.

FINANCIAL OVERVIEW (CONTINUED)

EXPENSE ANALYSIS (CONTINUED)

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 2017, subscriber related costs decreased by 5.7% due to lower employee and contractor costs of supporting a smaller subscriber base and lower trouble calls.

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 increased marginally by 1.7% to \$97.6 million due to increased internet delivery costs for on demand content and costs of supporting SKY's OTT products (NEON, FAN PASS).

Other costs include advertising costs, the overhead costs relating to corporate management and the affiliated businesses such as FATSO and Believe It or Not. These costs have decreased by 22.3% to \$54.0 million from \$69.5 million in the prior year due mainly to the professional fees incurred in relation to the planned acquisition of Vodafone NZ which was announced in June 2016. (Refer note 3 of the financial statements).

Depreciation and amortisation costs includes 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 increased by 4.9% to \$105.1 million for the current year due to depreciation on certain significant projects which have been completed during the current year.

Finance costs have decreased marginally from \$20.1 million to \$19.6 million. The reduction in interest is due to reduced levels of debt. SKY's weighted average interest rates are as follows:

	2017	2016
Bank loans	5.36%	6.19%
Bonds	6.04%	5.33%
Combined weighted average	5.65%	5.47%

Capital expenditure

SKY's capital expenditure over the last five years is summarised as follows:

IN NZD MILLIONS	2017	2016	2015	2014	2013
Subscriber equipment	19.7	63.8	22.8	20.6	22.9
Installation costs	29.3	32.6	29.7	36.9	40.2
Other	30.7	32.4	63.0	35.5	19.3
Total capital expenditure	79.7	128.8	115.5	93.0	82.4

Capital expenditure decreased by \$49.1 million in 2017 to \$79.7 million.

Subscriber equipment expenditure decreased by \$44.1 million due mainly to the prior year increase of \$41.0 million for the acquisition of the new internet enabled decoders being rolled out to customers to replace the old legacy digital decoders.

Installation costs were marginally lower by \$3.3 million due to fewer installations. Other capital expenditure of \$30.7 million included \$16.4 million of software additions, \$4.2 million of other plant and equipment, as well as \$5.2 million of capital work in progress.

FINANCIAL TRENDS

INCOME STATEMENT – FIVE YEAR SUMMARY

IN NZD 000	2017	2016	2015	2014	2013
For the year ended 30 June					
Total revenue	893,485	928,200	927,525	909,001	885,024
Total operating expenses ^{(1) (4)}	601,145	602,914	547,756	529,961	531,884
EBITDA ^{(2) (4)}	292,340	325,286	379,769	379,040	353,140
Less					
Depreciation, amortisation and impairment	105,148	100,241	119,194	126,143	134,260
Net interest expense and financing charges	20,470	19,684	21,696	27,097	29,193
Unrealised (gains)/losses on currency and other	(850)	371	–	1,293	692
Net profit before income tax ⁽⁴⁾	167,572	204,990	238,879	224,507	188,995

BALANCE SHEET – FIVE YEAR SUMMARY

IN NZD 000	2017	2016	2015	2014	2013
As at 30 June					
Property, plant, equipment and non-current intangibles	301,008	331,157	299,243	302,929	338,002
Goodwill	1,425,331	1,425,331	1,425,331	1,426,393	1,424,494
Total assets	1,887,200	1,943,564	1,942,021	1,865,369	1,900,293
Total debt and lease liabilities	298,663	348,085	350,763	387,191	483,786
Working capital ⁽³⁾	(54,035)	(35,230)	(36,285)	(48,325)	(39,790)
Total liabilities	559,322	612,641	604,818	624,205	718,396
Total equity	1,327,878	1,330,923	1,337,203	1,241,164	1,181,897

CASH FLOW – FIVE YEAR SUMMARY

IN NZD 000	2017	2016	2015	2014	2013
As at 30 June					
Net cash from operating activities	245,261	275,844	282,915	305,314	290,565
Net cash used in investing activities	(79,640)	(133,635)	(115,416)	(93,672)	(82,342)
Free cash flow available to shareholders	165,621	142,209	167,499	211,642	208,223

⁽¹⁾ Exclusive of depreciation, amortisation and impairment.

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

⁽³⁾ Working capital excludes current borrowing, bonds and derivative financial instruments.

⁽⁴⁾ Exclusion of Vodafone acquisition costs of \$2,145,000 (30 June 2016: \$13,371,000) (refer note 3) would result in a normalised adjusted EBITDA of \$294,485,000 (30 June 2016: \$338,657,000) and adjusted net profit before income tax of \$169,717,000 (30 June 2016: \$218,361,000).

FINANCIAL TRENDS (CONTINUED)

DEPRECIATION AND CAPITAL EXPENDITURE

IN NZD 000	2017	2016	2015	2014	2013
Depreciation, amortisation and impairment	105,148	100,241	119,194	126,143	134,260
Capital expenditure	79,700	128,800	115,500	93,000	82,400

HISTORY OF DIVIDEND PAYMENTS

BY CALENDAR YEAR IN CENTS PER SHARE	2017	2016	2015	2014	2013
Interim dividend (paid in March)	15.0	15.0	15.0	14.0	12.0
Final dividend (paid in September)	–	15.0	15.0	15.0	12.0
Total ordinary dividend	15.0	30.0	30.0	29.0	24.0

SUBSCRIBER BASE

The following operating data has been taken from the Company records and is not audited.

	2017	2016	2015	2014	2013
Total subscribers	824,782	852,679	851,561	865,055	855,898
Average monthly revenue per residential subscriber ⁽¹⁾	78.82	78.63	79.54	77.52	75.83
Gross churn ⁽²⁾	15.9%	17.5%	14.5%	13.2%	14.4%

⁽¹⁾ Years 2017 and 2016 include IGLOO, NEON and FAN PASS not included in earlier periods.

⁽²⁾ 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 2017 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.

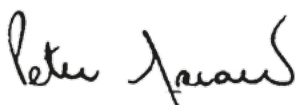
The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

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 2017.

The board of directors of Sky Network Television Limited authorise these financial statements for issue on 21 August 2017.

For and on behalf of the board of directors



Peter Macourt
Chairman



Susan Paterson
Director

21 August 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

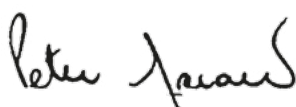
For the year ended 30 June 2017

IN NZD 000	Notes	2017	2016
Total revenue	2	893,485	928,200
Expenses			
Programming		349,426	331,050
Subscriber related costs		100,161	106,340
Broadcasting and infrastructure		97,578	96,040
Depreciation and amortisation	3	105,148	100,241
Other costs		53,980	69,484
		706,293	703,155
Operating profit		187,192	225,045
Finance costs, net	4	19,620	20,055
Profit before tax		167,572	204,990
Income tax expense	5	51,228	57,867
Profit for the year		116,344	147,123
Attributable to:			
Equity holders of the Company		116,026	146,718
Non-controlling interests		318	405
		116,344	147,123
Earnings per share			
Basic and diluted earnings per share (cents)	13	29.82	37.70
OTHER COMPREHENSIVE INCOME			
Profit for the year		116,344	147,123
Items that may be reclassified subsequently to profit and loss			
Cash flow hedges	13	(5,486)	(49,989)
Gain on available for sale investments	1	2,147	–
Income tax effect		935	13,997
Other comprehensive income for the year, net of income tax		(2,404)	(35,992)
Total comprehensive income for the year		113,940	111,131
Attributable to:			
Equity holders of the Company		113,622	110,726
Non-controlling interest		318	405
		113,940	111,131

CONSOLIDATED BALANCE SHEET

As at 30 June 2017

IN NZD 000	Notes	2017	2016
Current assets			
Cash and cash equivalents		5,444	22,863
Trade and other receivables	6	69,475	70,030
Programme rights inventory	7	79,003	79,765
Derivative financial instruments	12	176	2,982
		154,098	175,640
Non-current assets			
Property, plant and equipment	8	238,066	283,316
Intangible assets	9	1,488,273	1,473,172
Available for sale investment	1	6,552	4,832
Derivative financial instruments	12	211	6,604
		1,733,102	1,767,924
Total assets		1,887,200	1,943,564
Current liabilities			
Bonds	11	–	199,912
Trade and other payables	10	186,187	200,817
Income tax payable		21,770	7,071
Derivative financial instruments	12	9,038	9,670
		216,995	417,470
Non-current liabilities			
Bank loans	11	199,685	49,468
Bonds	11	98,978	98,705
Deferred tax	5	37,683	36,047
Derivative financial instruments	12	5,981	10,951
		342,327	195,171
Total liabilities		559,322	612,641
Equity			
Share capital	13	577,403	577,403
Hedging reserve	13	(9,062)	(5,112)
Retained earnings		758,247	757,417
Total equity attributable to equity holders of the Company		1,326,588	1,329,708
Non-controlling interest		1,290	1,215
Total equity		1,327,878	1,330,923
Total equity and liabilities		1,887,200	1,943,564



Peter Macourt
Chairman



Susan Paterson
Director

For and on behalf of the board 21 August 2017

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

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 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
For the year ending 30 June 2016							
Balance at 1 July 2015		577,403	30,880	727,441	1,335,724	1,479	1,337,203
Profit for the year		–	–	146,718	146,718	405	147,123
Cash flow hedges, net of tax	13	–	(35,992)	–	(35,992)	–	(35,992)
Total comprehensive income for the year		–	(35,992)	146,718	110,726	405	111,131
Transactions with owners in their capacity as owners							
Dividend paid		–	–	(116,742)	(116,742)	(669)	(117,411)
Supplementary dividends		–	–	(14,965)	(14,965)	–	(14,965)
Foreign investor tax credits		–	–	14,965	14,965	–	14,965
		–	–	(116,742)	(116,742)	(669)	(117,411)
Balance at 30 June 2016		577,403	(5,112)	757,417	1,329,708	1,215	1,330,923

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

IN NZD 000	Notes	2017	2016
Cash flows from operating activities			
Profit before tax		167,572	204,990
Adjustments for:			
Depreciation and amortisation	3	105,148	100,241
Unrealised foreign exchange loss	4	(212)	305
Interest expense	4	21,010	20,379
Bad debts and movement in provision for doubtful debts	3	1,732	2,427
Amortisation of bond issue costs	4	361	573
Other non-cash items		54	419
Movement in working capital items:			
Increase in receivables		(2,204)	(2,736)
(Decrease)/increase in payables		(7,749)	23,576
Decrease/(increase) in programme rights		762	(6,952)
Cash generated from operations		286,474	343,222
Interest paid		(22,704)	(20,920)
Income tax paid		(18,509)	(46,458)
Net cash from operating activities		245,261	275,844
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		42	–
Acquisition of property, plant, equipment and intangibles		(79,682)	(128,803)
Acquisition of available for sale investment	1	–	(4,832)
Net cash used in investing activities		(79,640)	(133,635)
Cash flows from financing activities			
Repayment of borrowings – bank loan	11	(111,000)	(103,000)
Advances received – bank loan	11	261,000	103,000
Repayment of borrowings – bond		(200,000)	–
Payment of finance lease liabilities		–	(3,294)
Payment of bank facility fees		(725)	(1,571)
Dividend paid to minority shareholders		(243)	(669)
Dividends paid		(132,072)	(131,707)
Net cash used in financing activities		(183,040)	(137,241)
Net (decrease)/increase in cash and cash equivalents		(17,419)	4,968
Cash and cash equivalents at beginning of year		22,863	17,895
Cash and cash equivalents at end of year		5,444	22,863

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

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 2017 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 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 21 August 2017.

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).

Accounting policies applied in these financial statements comply with NZ IFRS effective for the year beginning 1 July 2016, as applicable to SKY as a profit-oriented entity. The Group financial statements are in compliance 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	
			2017	2016
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	Online DVD rental	SKY	100.00%	100.00%
Igloo Limited ⁽¹⁾	Multi-channel pay television	SKY	100.00%	100.00%
Believe It Or Not Limited	Entertainment quizzes	SKY	51.00%	51.00%

⁽¹⁾ Ceased trading during the current year

In the prior year Cricket Max Limited was renamed SKY Ventures Limited and given a mandate by the Board to undertake minority equity investments in certain early stage companies which are aligned to the Group's strategic objectives. In March 2016 SKY Ventures acquired a 15.79% interest in 90 Seconds Pty Limited (a cloud video production company) for a cost of \$4.8 million. In the current 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 2017 was \$6.6 million (30 June 2016: \$4.8 million).

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.

1. GENERAL INFORMATION (CONTINUED)

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 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.

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 and earlier application is permitted. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group intends to adopt NZ IFRS 15 on its effective date with full retrospective application.

The Group has carried out a preliminary 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 principle considerations in certain third party contracts indicates there is a potential increase in revenue, offset by an increase in expenses with no effect on the net result, due to reclassification of discounts or commission where the Group is determined to be the principle.

No significant changes to existing systems and processes have been identified as necessary to comply with NZ IFRS 15. The analysis is based on current revenue streams and values and ongoing reassessment of issues and materiality is required, including review of the accounting for new offerings.

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. Early adoption is permitted but only in conjunction with NZ IFRS 15 “Revenue from Contracts with Customers” and the Group intends to adopt the standard from 1 July 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2017

1. GENERAL INFORMATION (CONTINUED)

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 3.2 to 2.9.

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 statement of comprehensive income and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the 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	2017	2016
Residential satellite subscriptions	725,066	753,115
Other subscriptions	82,247	79,286
Advertising	68,084	74,046
Other revenue	18,088	21,753
	893,485	928,200

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;

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.

3. OPERATING EXPENSES

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

IN NZD 000	Notes	2017	2016
Depreciation and amortisation			
Depreciation of property, plant and equipment ⁽¹⁾	8	87,570	89,086
Amortisation of intangibles	9	17,578	11,155
Total depreciation and amortisation		105,148	100,241
Bad and doubtful debts			
Movement in provision		165	(218)
Net write-off		1,732	2,427
Total bad and doubtful debts	6	1,897	2,209
Fees paid to external auditors			
Audit fees paid to principal auditors ⁽²⁾		336	264
Other services by principal auditors			
Audit of regulatory returns		3	6
Other services ⁽³⁾		17	1
Agreed upon procedures ⁽⁴⁾		–	6
Advisory services by principal auditors			
Treasury		27	27
Consulting services ⁽⁵⁾		–	8
Total fees to external auditors		383	312
Professional fees in relation to acquisition of Vodafone NZ		2,145	13,371
Employee costs ⁽⁶⁾		97,040	100,674
KiwiSaver employer contributions		2,251	2,244
Donations		413	366
Operating lease and rental expenses		37,939	37,265
Related party transactions			
Remuneration of key personnel (included in employee costs)		11,949	12,172
Directors' fees		555	626
Total related party transactions		12,504	12,798

⁽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 the proposed acquisition of Vodafone NZ.

⁽⁴⁾ Agreed upon procedures were undertaken in relation to the Special Shareholders Meeting.

⁽⁵⁾ Consulting services in relation to the economic contribution of the NZ film and TV sector.

⁽⁶⁾ All employee costs are short-term employee benefits.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2017

4. FINANCE COSTS, NET

IN NZD 000	2017	2016
Finance income		
Interest income	(540)	(695)
	(540)	(695)
Finance expense		
Interest expense on bank loans	10,663	2,127
Interest expense on bonds	9,064	15,995
Finance lease interest	–	31
Amortisation of bond costs	361	573
Bank facility finance fees	922	1,653
Total interest expense	21,010	20,379
Unrealised exchange loss/(gain) – foreign currency payables	812	(4,962)
Unrealised exchange (gain)/loss – foreign currency hedges	(1,024)	5,267
Realised exchange gain – foreign currency payables	(648)	(484)
Realised exchange loss – foreign currency hedges	10	550
	19,620	20,055

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.

5. TAXATION

Income tax expense

The total charge for the year can be reconciled to the accounting profit as follows:

IN NZD 000	2017	2016
Profit before tax	167,572	204,990
Prima facie tax expense at 28%	46,920	57,397
Non deductible expenses	771	585
Prior year adjustment	3,537	(115)
Income tax expense	51,228	57,867
Allocated between		
Current tax payable	48,658	56,261
Deferred tax	2,570	1,606
Income tax expense	51,228	57,867

Imputation credits

IN NZD 000	2017	2016
Imputation credits available for subsequent reporting periods based on a tax rate of 28%	80,158	77,347

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2017

5. TAXATION (CONTINUED)

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 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
For the year ended 30 June 2016						
At 1 July 2015		9,028	28,978	(1,576)	12,008	48,438
NZ IAS 39 hedging adjustment credited direct to other comprehensive income	13	–	–	–	(13,997)	(13,997)
(Credited)/charged to profit and loss		2,888	2,139	(3,421)	–	1,606
Balance at 30 June 2016		11,916	31,117	(4,997)	(1,989)	36,047
Deferred tax reversing within 12 months		2,610	(5,348)	(4,997)	(721)	(8,456)
Deferred tax to reverse after more than 12 months		9,306	36,465	–	(1,268)	44,503
		11,916	31,117	(4,997)	(1,989)	36,047

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 2016: \$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.

6. TRADE AND OTHER RECEIVABLES

IN NZD 000	Notes	2017	2016
Trade receivables		61,529	62,120
Less provision for impairment of receivables		(926)	(763)
Trade receivables – net		60,603	61,357
Other receivables		2,739	678
Prepaid expenses		6,133	7,995
Balance at end of year		69,475	70,030
Deduct prepaid expenses		(6,133)	(7,995)
Balance financial instruments	14	63,342	62,035

IN NZD 000	2017		2016	
	Gross	Impairment	Gross	Impairment
Residential subscribers	34,390	380	36,435	244
Commercial subscribers	5,217	38	5,269	54
Wholesale customers	9,860	–	10,190	–
Advertising	9,219	61	7,057	103
Commercial music	107	37	129	17
Other	2,736	410	3,040	345
	61,529	926	62,120	763

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2017

6. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

IN NZD 000	2017			2016		
	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	54,013	–	–	53,359	–	11
Past due 0-30 days	–	5,344	80	–	5,863	65
Past due 31-60 days	–	897	23	–	1,005	40
Past due 61-90 days	–	203	197	–	331	215
Greater than 90 days	–	146	626	–	799	432
	54,013	6,590	926	53,359	7,998	763

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	2017	2016
Opening balance		763	981
Charged during the year	3	1,897	2,209
Utilised during the year		(1,734)	(2,427)
Closing balance		926	763

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	2017	2016
Opening balance	79,765	72,813
Acquired during the year	286,278	278,610
Charged to programming expenses	(287,040)	(271,658)
Balance at end of year	79,003	79,765

Programme rights are recognised at cost, as an asset in the 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.

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 ended 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
For the year ended 30 June 2016							
Cost							
Balance at 1 July 2015	58,199	158,539	452,128	427,338	78,241	38,553	1,212,998
Transfer between categories	2,409	78	–	–	2,043	(4,530)	–
Transfer to software assets	–	–	–	–	–	(26,023)	(26,023)
Additions	2,986	703	67,292	32,559	2,039	10,655	116,234
Disposals	(5)	(4,052)	(39,038)	(56,367)	(772)	–	(100,234)
Balance at 30 June 2016	63,589	155,268	480,382	403,530	81,551	18,655	1,202,975
Accumulated depreciation							
Balance at 1 July 2015	18,213	130,152	398,063	336,924	47,427	–	930,779
Depreciation for the year	2,266	9,501	30,169	39,189	7,961	–	89,086
Disposals	(1)	(4,042)	(39,038)	(56,367)	(758)	–	(100,206)
Balance at 30 June 2016	20,478	135,611	389,194	319,746	54,630	–	919,659
Net book value at 30 June 2016	43,111	19,657	91,188	83,784	26,921	18,655	283,316

Land, buildings and leasehold improvements at 30 June 2017 includes land with a cost of \$8,820,000 (30 June 2016: \$8,820,000).

Depreciation related to broadcasting assets (including decoders and capitalised installation costs) of \$76,726,000 (30 June 2016: \$78,859,000) accounts for the majority of the total depreciation charge. Due to immateriality of the remaining depreciation, no allocation has been made across expense categories in profit and loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2017

8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 an 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 \$954,000 of capitalised labour costs (30 June 2016: \$575,000).

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

Projects under development are not depreciated until commenced.

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.

9. INTANGIBLE ASSETS

IN NZD 000	Software	Broadcasting rights	Other intangibles	Indefinite life goodwill	Total
For the year ended 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
For the year ended 30 June 2016					
Cost					
Balance at 1 July 2015	96,849	2,185	3,167	1,426,293	1,528,494
Transfer from projects under development	26,023	–	–	–	26,023
Additions	15,949	–	–	–	15,949
Disposals	(5,228)	–	–	–	(5,228)
Balance at 30 June 2016	133,593	2,185	3,167	1,426,293	1,565,238
Accumulated amortisation					
Balance at 1 July 2015	81,535	564	3,078	962	86,139
Amortisation for the year	10,300	855	–	–	11,155
Disposals	(5,228)	–	–	–	(5,228)
Balance at 30 June 2016	86,607	1,419	3,078	962	92,066
Net book value at 30 June 2016	46,986	766	89	1,425,331	1,473,172

The majority of the amortisation and impairment charge relates to broadcasting intangibles. 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.

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 \$8,304,000 of accumulated capitalised labour costs, \$4,580,000 of which were incurred in the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2017

9. INTANGIBLE ASSETS (CONTINUED)

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) as at 30 June 2017, which is classified within Level 3 of the fair value hierarchy has been determined based on fair value less cost of disposal calculations. This is different from the previous year's value-in-use calculation as it includes 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 and costs, ability to secure key content 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 and direct costs based on past practice and expectations of future changes in the market.

The fair value less cost of disposal calculation is based on estimated future cash flows, approved by the board, derived from budgets for financial year 2018 and forecasts for the next four years prepared for the impairment model.

SKY's fair value less cost of disposal calculation exceeds the \$1.46 billion carrying value of goodwill by over \$130 million. The key assumptions used in SKY's calculation are;

- A decrease in satellite subscribers of 7.8% over five years
- A decrease in satellite ARPU of 2.7% over five years
- A decrease in operating costs of 16.8% over five years
- A 0% terminal growth assumption
- A 9.0% after tax (12.5% pre-tax) discount rate

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 2017 was \$3.45 (prior year \$4.77) equating to a market capitalisation of \$1.34 billion. This market value excludes any control premium and may not reflect the value of 100% of SKY's equity.

Sensitivity of recoverable amounts

The assessment of fair value less cost of disposal is most sensitive to subscriber numbers, future average revenue per user (ARPU), the NZD cost of programming rights, future cost saving initiatives, terminal growth rate and the discount rate.

The following changes in key assumptions or combinations of these factors would cause the fair value less cost of disposal calculation to be less than the carrying amount.

- A decrease in satellite subscriber numbers of more than 10% over five years
- A decrease in satellite ARPU by more than 5.0% over five years
- A terminal growth rate assumption of lower than -1.0%
- A decline in operating costs of less than 14% over five years
- An increase in the after tax discount rate above 1.0%

10. TRADE AND OTHER PAYABLES

IN NZD 000	Notes	2017	2016
Trade payables		80,731	84,302
Unearned subscriptions and deferred revenue		64,250	66,175
Employee entitlements		15,559	15,353
Accruals		25,647	34,987
Balance at end of year		186,187	200,817
Less			
Unearned subscriptions and deferred revenue		(64,250)	(66,175)
Balance financial instruments	14	121,937	134,642

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

11. BORROWINGS

IN NZD 000	2017			2016		
	Current	Non-current	Total	Current	Non-current	Total
Bank loans	–	199,685	199,685	–	49,468	49,468
Bonds	–	98,978	98,978	199,912	98,705	298,617
	–	298,663	298,663	199,912	148,173	348,085

Repayment terms

IN NZD 000	2017	2016
Less than one year	–	199,912
Between one and five years	298,663	49,468
More than five years	–	98,705
	298,663	348,085

Bank Loans

The Group has a revolving credit bank facility 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. In June 2016, the facility limit was increased to \$350 million. Interest is charged on drawings under the facility at a rate between 1.45% and 2.15% per annum above the average bid rate for the purchase of bank accepted bills of exchange. There is a commitment fee payable on the undrawn balance of the facility of between 0.64% and 0.96% per annum. There are no required repayment tranches of the facility. The facility can be partially or fully cancelled at SKY's discretion. In July 2016 the bank facility limit was decreased to \$300 million. Cash balances held with the Bank of New Zealand are subject to a netting arrangement. Bank overdrafts of \$5,701,000 (30 June 2016: \$2,744,000) have been set off against the 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 and 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 statement of cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2017

11. BORROWINGS (CONTINUED)

Bonds

On 16 October 2006, the Group issued bonds for a value of \$200 million which were fully subscribed (Bond A). These bonds were repaid on 16 October 2016. Repayment was effected by a drawdown on the Group's bank facility.

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

Terms and conditions of outstanding bonds are as follows:

	2017	2016	
	Bond B	Bond A	Bond B
Nominal interest rate	6.25%	3.38%	6.25%
Market yield	4.92%	4.97%	4.01%
Issue date	31-Mar-14	16-Oct-06	31-Mar-14
Date of maturity	31-Mar-21	16-Oct-16	31-Mar-21
IN NZD 000			
Carrying amount	98,978	199,912	98,705
Fair value	104,529	199,000	109,644
Face value	100,000	200,000	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 and loss over the period of the bonds, using the effective interest method. Bonds are classified in the balance sheet as non-current liabilities unless settlement of the liability is due within twelve months after the balance date.

Bond A was repaid on the due date of 16 October 2016 and replaced with bank debt.

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.

12. DERIVATIVE FINANCIAL INSTRUMENTS

		2017			2016		
IN NZD 000	Notes	Assets	Liabilities	Notional amounts	Assets	Liabilities	Notional amounts
Interest rate swaps – cash flow hedges		–	(5,298)	188,000	–	(9,663)	198,000
Interest rate swaps – fair value through profit and loss		46	–	10,000	105	–	10,000
Total interest rate derivatives		46	(5,298)	198,000	105	(9,663)	208,000
Forward foreign exchange contracts – cash flow hedges		324	(8,100)	421,797	9,481	(7,594)	478,778
Forward foreign exchange contracts – dedesignated		17	(1,621)	46,584	–	(3,364)	55,057
Total forward foreign exchange derivatives		341	(9,721)	468,381	9,481	(10,958)	533,835
		387	(15,019)	666,381	9,586	(20,621)	741,835
Analysed as:							
Current		176	(9,038)	361,286	2,982	(9,670)	279,281
Non-current		211	(5,981)	305,095	6,604	(10,951)	462,554
		387	(15,019)	666,381	9,586	(20,621)	741,835
Derivatives used for hedging – cash flow hedges	14	324	(13,398)	609,797	9,481	(17,257)	676,778
At fair value through profit or loss	14	63	(1,621)	56,584	105	(3,364)	65,057
		387	(15,019)	666,381	9,586	(20,621)	741,835

12. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Exchange rates

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

	2017	2016
USD	0.7315	0.7091
AUD	0.9530	0.9544
GBP	0.5623	0.5276
EUR	0.6402	0.6385
JPY	81.9792	72.7466

Forward foreign exchange contracts

The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates during the next 36 months. Gains and losses recognised in the hedging reserve in equity (note 13) on forward exchange contracts as of 30 June 2017 are recognised in profit and loss in the period or periods during which the hedged forecast transaction affects profit and loss. Generally, the gain or loss is recognised as a basis price adjustment for the purchase of programme rights, and is written off to profit and loss over the rights' period.

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 \$387,000 (2016: \$9,586,000).

Exposure to currency risk

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

	2017			2016		
IN NZD 000	USD	AUD	Other	USD	AUD	Other
Foreign currency payables	(28,822)	(22,275)	–	(26,592)	(24,542)	–
Dedesignated forward exchange contracts	29,921	16,664	–	34,251	20,806	–
Net balance sheet exposure	1,099	(5,611)	–	7,659	(3,736)	–
Forward exchange contracts (for forecasted transactions)	273,746	147,082	968	326,853	151,248	677
Total forward exchange contracts	303,667	163,746	968	361,104	172,054	677

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2017

12. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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 stronger NZD		10% rate decrease weaker NZD	
IN NZD 000 gain/(loss)	Equity	Profit or loss	Equity	Profit or loss
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)
As at 30 June 2016				
Foreign currency payables				
USD	–	2,417	–	(2,954)
AUD	–	2,230	–	(2,726)
Foreign exchange hedges				
USD	(29,112)	(2,812)	35,582	3,437
AUD	(13,018)	(1,843)	15,911	2,253
Other	(62)	–	75	–
	(42,192)	(8)	51,568	10

Interest rates

During the year ended 30 June 2017, interest rates on borrowings varied in the range of 3.2% to 6.5% (2016:3.2% to 6.5%).

The Group's interest rate structure is as follows:

		2017		2016	
IN NZD 000	Notes	Effective interest rate	Current	Effective interest rate	Current
Assets					
Cash and cash equivalents		2.31%	5,444	2.02%	22,863
Liabilities					
Bank loans	11	5.36%	–	6.19%	–
Bonds	11	6.04%	–	5.33%	–
Derivatives					
Floating to fixed interest rate swaps			108,000		80,000
Fixed to floating interest rate swaps			–		10,000
			113,444		(208,663)
					(177,049)
					59,827

Gains and losses recognised in the hedging reserve in equity (note 13) on interest rate hedges as at 30 June 2017 will be continuously released to profit and loss within finance cost until the repayment of the bank borrowings and bonds. On 16th October 2016 the revolving credit facility was utilised to repay the bond.

12. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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.

IN NZD 000 gain/(loss)	100 BP increase		100 BP decrease	
	Equity	Profit and loss	Equity	Profit and loss
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
As at 30 June 2016				
Variable rate instruments – bank loans	–	(266)	–	266
Interest rate hedges – cash flow	3,507	–	(3,633)	–
	3,507	(266)	(3,633)	266

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 mainly 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 and loss. The amounts accumulated in equity are either released to profit and 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 and loss.

Amounts accumulated in the hedging reserve in equity on interest rate swaps are recycled in profit and loss in the periods when the hedged item affects profit and 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 and 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 and 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 and 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 and loss. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit and loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2017

13. EQUITY

Share capital

	Number of shares (000)	Share capital (NZD 000)
Shares on issue at 30 June 2017 and 30 June 2016	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.

	2017	2016
Profit after tax attributable to equity holders of Parent (NZD 000)	116,026	146,718
Weighted average number of ordinary shares on issue (thousands)	389,140	389,140
Basic earnings per share (cents)	29.82	37.70
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

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	2017	2016
Balance at 1 July		(5,112)	30,880
Cash flow hedges			
Unrealised gains/(losses) during the year		(11,189)	(44,681)
Transfer to basis price adjustment programme rights inventory		4,712	(3,865)
Transfer to operating expenses		992	(1,443)
Deferred tax	5	1,535	13,997
		(3,950)	(35,992)
Balance at end of year		(9,062)	(5,112)

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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2017

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

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	20%	80%
	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 \$100,000,000 (June 2016: \$300,000,000) that can be drawn down to meet short-term working capital requirements. In July 2016, the facility limit was decreased to \$300,000,000, from \$350,000,000.

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 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)
At 30 June 2016						
Non derivative financial liabilities						
Secured bank loans	11	49,468	(57,688)	(1,900)	(1,900)	(53,888)
Bonds	11	298,617	(333,068)	(209,630)	(6,250)	(117,188)
Trade and other payables	10	134,642	(134,642)	(134,642)	–	–
Derivative financial liabilities						
Forward exchange contracts used for hedging – net outflow/inflow ⁽¹⁾	12	10,958	(11,159)	(9,041)	(1,440)	(678)
Interest rate swaps ⁽¹⁾	12	9,663	(8,867)	(4,325)	(3,099)	(1,443)
		503,348	(545,424)	(359,538)	(12,689)	(173,197)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2017

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 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)
At 30 June 2016						
Forward foreign exchange contracts						
Outflow (at FX hedge rate)						
USD			(361,104)	(163,481)	(76,474)	(121,149)
AUD			(172,054)	(105,123)	(47,279)	(19,652)
YEN			(677)	(677)	–	–
Inflow (at year end market rate)						
USD	0.7091	251,727	354,994	160,715	75,180	119,099
AUD	0.9544	158,981	166,577	101,777	45,774	19,026
YEN	72.7466	49,329	678	678	–	–
			(11,586)	(6,111)	(2,799)	(2,676)

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 2016.

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.

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

IN NZD 000	Notes	2017	2016
Debt	11	298,663	348,085
Cash and cash equivalents		(5,444)	(22,863)
Net debt		293,219	325,222
Equity		1,327,878	1,330,923
Net debt to equity ratio		22%	24%

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 (2016: 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	2017	2016
Assets measured at fair value			
Trading derivatives – dedesignated or not hedge accounted	12	63	105
Derivatives used for hedging – cash flow hedges	12	324	9,481
Available for sale investment	1	6,552	4,832
Total assets		6,939	14,418
Liabilities measured at fair value			
Trading derivatives – dedesignated or not hedge accounted	12	(1,621)	(3,364)
Derivatives used for hedging – cash flow hedges	12	(13,398)	(17,257)
Total liabilities		(15,019)	(20,621)

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2017

14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments carried at amortised cost

		2017		2016	
IN NZD 000	Notes	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets					
Loans and receivables					
Cash and cash equivalents		5,444	5,444	22,863	22,863
Trade and other receivables	6	63,342	63,342	62,035	62,035
Total assets		68,786	68,786	84,898	84,898
Financial liabilities held at amortised cost					
Bank loans	11	199,685	198,037	49,468	44,366
Bonds	11	98,978	104,529	298,617	308,644
Trade and other payables	10	121,937	121,937	134,642	134,642
Total liabilities		420,600	424,503	482,727	487,652

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 and 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 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.

15. COMMITMENTS

IN NZD 000	2017	2016
Operating leases – future minimum lease payments:		
Year 1	35,134	35,978
Year 2	33,873	34,323
Year 3	33,285	33,413
Year 4	33,170	33,140
Year 5	14,006	33,102
Later than five years	72	14,049
	149,540	184,005
Contracts for transmission services:		
Year 1	4,697	6,428
Year 2	539	2,951
Year 3	245	539
Year 4	–	245
	5,481	10,163
Contracts for future programmes:		
Year 1	202,415	187,787
Year 2	181,110	184,703
Year 3	146,953	155,257
Year 4	83,361	115,457
Year 5	33,391	66,366
Later than five years	19,331	30,449
	666,561	740,019
Capital expenditure commitments:		
<i>Property, plant and equipment</i>		
Year 1	8,813	16,197
	8,813	16,197
Other services commitments:		
Year 1	7,508	7,190
Year 2	1,562	2,650
Year 3	978	526
Year 4	970	–
Year 5	193	–
	11,211	10,366

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, to enable the launch of additional channels. The cost of leasing the seventh transponder for the first three years to 31 March 2014 is based on a revenue share of certain specified SKY channels. Payments thereafter are for a fixed amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2017

16. CONTINGENT LIABILITIES

The Group has undrawn letters of credit at 30 June 2017 of \$650,000 (30 June 2016: \$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 21 August 2017 the Board of Directors announced that it will pay a fully imputed dividend of 12.5 cents per share with the record date being 5 September 2017. A supplementary dividend of 2.2059 cents per share will be paid to non-resident shareholders subject to the foreign investor tax credit regime.

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 2017;
- 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 2017, 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 assurance over regulatory and trustee reporting, treasury advisory services and matters related to the proposed acquisition of Vodafone NZ. 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 \$8.5 million, which represents 5% of profit before tax, adjusted to exclude non-recurring costs of \$2.1 million in relation to the acquisition of Vodafone NZ.

We chose adjusted profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark..

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.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of SKY Network Television Limited



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
<p>Carrying value of goodwill</p> <p>The Group has a goodwill balance of \$1,425 million at 30 June 2017 that arose on the acquisition of SKY by Independent Newspapers Limited in 2005. No impairment charge has been recorded against this balance in previous financial years. SKY's business is affected by digital disruption in the media industry and this increases the risk of impairment.</p> <p>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 that goodwill will be impaired.</p> <p>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.</p> <p>In prior years management used a value in use methodology. 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 2017 management considered the recoverable amount using the fair value less costs of disposal methodology as being the most appropriate approach.</p> <p>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 and costs, 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.</p> <p>In their assessment management determined that the model was most sensitive to changes in the assumptions relating to subscriber numbers, ARPU, reductions achieved in operating expenses, the discount rate and the long term growth rate.</p>	<p>We obtained management's fair value less costs of disposal model used to assess the carrying value of goodwill at 30 June 2017.</p> <p>Our audit procedures included the following:</p> <p>Assessing management's processes and controls over preparing the model.</p> <p>Assessed the appropriateness of using a fair value less costs of disposal approach against the applicable accounting standard.</p> <p>Tested the calculation of the valuation model, including the inputs and the mathematical accuracy and comparison to the relevant net assets of the business.</p> <p>Assessed the key estimates and assumptions made by management. Our procedures included the following:</p> <ul style="list-style-type: none"> • 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 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 are 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 used our own expert to assess the control premium against historical market data and determined that it is within an acceptable range given estimation uncertainty.



Key Audit Matter

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 have identified that whilst there is no impairment in the carrying value of goodwill at 30 June 2017, there are reasonably possible changes in key assumptions that could result in impairment, as disclosed in note 9.

How our audit addressed the key audit

- 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.

We reviewed the disclosures in note 9 to the financial statements to ensure they are compliant with the requirements of the accounting standards.

No significant issues arose from undertaking these procedures.

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 was available to us at the date of our signing.

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://xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

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 (Leo) Foliaki.

For and on behalf of:

Chartered Accountants
21 August 2017

Auckland

**SKY NETWORK
TELEVISION LIMITED**

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Director's Declaration

The directors declare that the consolidated financial statements set out on pages 13 to 43:

- (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 2017 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 21st day of August 2017.

A handwritten signature in black ink, appearing to read "Peter Macourt".

Peter Macourt
Chairman

A handwritten signature in black ink, appearing to read "John Fellet".

John Fellet
Director

Other Information

Sky Network Television Limited Year ended on 30 June 2017 (In NZD)

- **Net tangible assets per security:**

Current period \$(0.415): 1

Previous period \$(0.369): 1

- **Control gained over entities**

Acquisitions

During the prior year Cricket Max Limited was renamed SKY Ventures Limited and given a mandate by the Board to undertake minority equity investments in certain early stage companies which are aligned to the Group's strategic objectives. 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 current 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 2017 was \$6.6 million.

These acquisitions had no material effect on the Group balance sheet or the group results.

- **Loss of control of entities**

Not applicable.

- **Dividends**

Final dividend payable: \$48.6 million

Record date to determine entitlements to the final dividend: 5 September 2017

Date final dividend payable: 14 September 2017

Date interim dividend paid: 22 February 2017

Total interim dividends paid: \$58.4 million

Date final dividend paid: 16 September 2016

Total final dividend paid: \$58.4 million

Previous corresponding period – interim dividend (paid March 2016): \$58.4 million
(ordinary securities)

Previous corresponding period – final dividend (paid Sept 2015): \$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	12.5 cents			
Interim Dividend	15.0 cents			
NZ imputation credits - final	4.8611 cents			
NZ imputation credits - interim	5.8333 cents			
Supplementary dividend - final				2.2059 cents
Supplementary dividend - interim				2.6471 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
Derek Handley	Director
Geraldine McBride	Director
John Waller	Director (Retired 15 September 2016)
Susan Paterson	Director