





**NEW PLATFORMS.
MORE CONTENT,
MORE CHOICE.
IT'S FAST FORWARD
FOR SKY.**



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CHIEF EXECUTIVE'S REVIEW



Dear shareholders

As I write this we are still awaiting the outcome of the review of the proposed merger between SKY and Vodafone by the Commerce Commission. The original date given for the release of the result was to be in November. It has now been pushed back to 23 February 2017.

While I believe the Commerce Commission decision will have a greater long-term impact on the value of your investment in SKY than just this interim six month result; the purpose of this CEO letter, as always, is to provide you insights beyond the raw numbers.

In my last few letters to you I have discussed how SKY and for that matter all the media industry, was going through a disruption phase. Be it SKY, a free-to-air advertising supported television channel, a newspaper or a magazine, even radio – all traditional media companies are under some form of stress from digital disruption.

This digital disruption has also brought a massive increase in the supply of additional viewing options for consumers and spending options for advertisers. Yet without much increase in overall demand. Since SKY has the lion's share of the New Zealand subscription television customers, it faces the biggest challenges. In this letter I will try and update you on what we are doing to improve your company's position, and to counter this often accentuated view of disruption on SKY – a company some would have you believe is the only one affected by such disruption.

In the 30 June Annual Report SKY reported 852,679 subscribers. For the period ending 31 December this number fell to 816,135. It is important to understand this change. We do not break out the categories of subscribers for competitive reasons but in the annual letter I did disclose that the bulk of net subscriber gains came from internet delivered services such as FAN PASS and NEON. Likewise, in the December figure it was FAN PASS and NEON that accounted for more than half of this loss.

In a mature pay television market, subscriptions will tend to peak in the middle of the winter (the earlier it gets dark and the rainier it is, the better we like it). Similarly, services like FAN PASS and NEON are even more seasonal. FAN PASS allows customers to buy our SKY Sport tier by the month, week or day. It has been quite successful in attracting non SKY subscribers. But there will always be greater interest in the service during the winter months when Netball, Rugby and Rugby League are of peak interest.

NEON is also event driven. The biggest entertainment event each year is Game of Thrones, which also hits this market in the middle of the winter this year. This will mean that NEON will also hit its peak subscribers around June and July as well. Despite a compelling array of other HBO, Showtime, CBS, Warner's, AMC and other studio dramas; and the biggest blockbuster movies in their first pay window, Game of Thrones will always over index in attracting NEON subscribers compared to any other single piece of entertainment content. It is a unique international television phenomenon, the likes of which may never be seen again.

OUR STRATEGY TO DEAL WITH THIS DISRUPTION IS TO HARNESS THIS DIGITAL REVOLUTION FOR THE BENEFIT OF OUR SUBSCRIBERS.

For several reasons such as high churn rates, NEON and FAN PASS are not as profitable as traditional SKY subscribers. Hence the subscriber gains last June and the subscriber losses in December, whilst still an important metric, do not impact us as much as if they were traditional subscribers.

Earlier I mentioned that all media companies were facing digital disruption. In our industry the biggest impact is that it has never been easier to start a “subscription business”, both domestically and internationally. These new businesses fall under half a dozen commercial models, and to date it is uncertain which will survive, let alone be ultimately profitable. The biggest challenge we face with each of these models is that they all need to be fed content to be able to offer a product.

Recognising this, a few years ago your company went out and bought a temporary insurance policy by determining what content (be it sport or entertainment) was the most important to SKY. We contracted this content on a long term basis and with the flexibility that would allow us to deliver that content in an array of different options like NEON and FAN PASS. In some cases other parties with different economic models outbid us for pockets of content but before too long some of this content like Golf and the English Premier League have since landed back on SKY’s subscription television platform.

This insurance policy came at a cost but one I would pay again if I could go back in time. The biggest impact during this period was the steep increase in SANZAR Rugby rights. This increase straddles our fiscal year so half of the impact hit in the financial year between January 2016 and June 2016 and the other half in the latest period between July 2016 and December 2016. The good news is that at least the Rugby rights are flat for another four years. Also impacting the profit of \$59 million in the latest period was the cost of the four yearly event of the 2016 Summer Olympics in August.

The Summer Olympics are a good example of how we are dealing with increased costs. With technical improvements and investments

we created more ways to watch the Olympics than ever before. SKY Sport customers enjoyed unprecedented coverage across SKY Sport 3 and SKY Sport 4 as well as ten comprehensive Rio 2016 Olympic Games Pop-Up channels. A SKY Olympics App, SKY Go and SKY On Demand offered additional ways to view and free-to-air channel Prime offered comprehensive coverage with up to 15 hours daily.

Our strategy to deal with this disruption is to harness this digital revolution for the benefit of our subscribers, and SKY Go was the first step. This app allows SKY customers to access their favourite live channels no matter where they are in New Zealand. As mentioned, during the Summer Olympics over 600,000 viewer hours of content was consumed online in one month. This monthly record was not broken until January 2017 when over 640,000 viewer hours of content was consumed, presumably customers watching Cricket or movies at the beach.

The second step was increasing our share of the “on demand” world. For years we owned the On Demand category with our MY SKY decoders, but increasingly the internet has stolen market share from us. Last year we downloaded a new operating system to our decoders that allowed them to connect to the internet. Currently, SKY subscribers who have activated this option download on average an additional 2.5 pieces of content each week, which is equivalent to one night of television viewing. At last count, depending on what packages customers have, they can avail themselves to another 4,700 pieces of content.

And finally, the third leg of our strategy was to create a package of services that would accommodate individuals whose lifestyle or living circumstances does not lend itself to the SKY traditional package. It might be a university student living in a dorm, or a young professional who is flatting. To address their needs we launched NEON, a Subscription Video On Demand service; and FAN PASS, an over the top internet delivered sports service. These new services are not without their challenges. However, our unwavering belief

throughout the history of this company is to deliver great value to our customers. Ensuring they have something great to watch each day, no matter what mood they are in or who they are with. To do this we will continually evolve and adapt the way we deliver content to meet the needs, lifestyles and expectations of today's and tomorrow's customers.

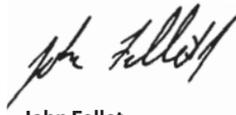
HIGHLIGHTS

- The Rio 2016 Olympic Games were broadcast during August on over 12 SKY channels, free-to-air on Prime and through SKY Go, On Demand, and a SKY Olympic App. Working with the National Foundation for the Deaf we were able to offer captions on Prime for the first time. SKY was asked to be the host producer of the international feed for three Olympic events; the Open Water Swim, Triathlon and Rugby Sevens.
- In the middle of 2016 both the PGA and LPGA Golf Tours were secured back on SKY.
- In August 2016 we launched premium beIN SPORTS channels dedicated entirely to Football and bringing fans unprecedented live coverage and analysis of some of the best Football leagues and tournaments in the world. One channel is dedicated to the Premier League, and another features some of the best Football competitions across the world.
- We agreed a deal with Prime and BBC Worldwide Australia & New Zealand (ANZ) in December 2016. This will see a range of BBC Worldwide's best factual and documentary series, including Sir David Attenborough's highly acclaimed Planet Earth II, premiere exclusively on the free-to-air channel in New Zealand.
- Global youth media company VICE partnered with SKY to bring New Zealanders a new lifestyle and cultural TV channel VICELAND which launched on 1 December 2016. VICELAND is a channel for and by young people curious about life right now, and has been made available to all SKY Basic customers.

In September 2016, valued board member John Waller sadly passed away. I personally want to thank John for his unwavering dedication to SKY. As I said at the time we have lost our most trusted advisor, mentor and friend. A man whose unwavering commitment to our company since 2009, and whose governance and insight, remains a testimony to his stature in the New Zealand business community.

DIVIDENDS

The board of directors has evaluated the performance of the business over the six months to 31 December 2016 and its prospects for the full year. On 31 January 2017 the board announced a fully imputed interim dividend of 15 cents per share (prior interim dividend 15 cents) with the record date being 15 February 2017 and a payment date of 22 February 2017. A supplementary dividend of 2.65 cents per share will be paid to non-resident shareholders.



John Fellet

Chief Executive Officer



INTERIM FINANCIAL STATEMENTS TO 31 DECEMBER 2016

SUBSCRIBER BASE

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

	31 Dec 16	31 Dec 15	31 Dec 14	31 Dec 13	31 Dec 12
Total subscribers	816,135	860,445	856,348	857,115	846,988
Average monthly revenue per residential subscriber ⁽¹⁾	79.09	79.56	79.43	77.51	75.78
Gross churn ⁽²⁾	17.7%	15.4%	13.7%	13.3%	14.6%

⁽¹⁾ Dec 2016 and Dec 2015 include IGLOO, NEON and FAN PASS not included in previous periods.

⁽²⁾ Gross churn relates to satellite subscribers only and refers to the percentage of residential subscribers over the 12-month period ended on the date shown who terminated their subscription, net of existing subscribers who transferred their service to new residences during the period.

HISTORY OF DIVIDEND PAYMENTS

By calendar year in cents per share

	2016	2015	2014	2013	2012
Interim dividend (paid in March)	15.0	15.0	14.0	12.0	11.0
Final dividend (paid in September)	15.0	15.0	15.0	12.0	11.0
Total ordinary dividend	30.0	30.0	29.0	24.0	22.0
Add special dividend	-	-	-	-	32.0
Total dividend for the year	30.0	30.0	29.0	24.0	54.0

CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2016 (unaudited)

IN NZD 000	Notes	31 Dec 2016 (6 months)	31 Dec 2015 (6 months)	30 Jun 2016 (1 year) (audited)
Total revenue	4	458,183	475,554	928,200
Expenses				
Programming		181,553	162,905	331,050
Subscriber related costs		48,937	53,403	106,340
Broadcasting and infrastructure		50,374	47,765	96,040
Depreciation and amortisation		52,207	49,181	100,241
Other costs		27,456	30,614	69,484
		360,527	343,868	703,155
Operating profit		97,656	131,686	225,045
Finance costs, net		9,310	10,315	20,055
Profit before tax		88,346	121,371	204,990
Income tax expense		28,887	34,034	57,867
Profit for the period		59,459	87,337	147,123
Attributable to:				
Equity holders of the Company		59,300	87,092	146,718
Non-controlling interests		159	245	405
		59,459	87,337	147,123
Earnings per share				
Basic and diluted earnings per share (cents)		15.24	22.38	37.70
OTHER COMPREHENSIVE INCOME				
Profit for the period		59,459	87,337	147,123
Items that may be reclassified subsequently to profit and loss				
Cash flow hedges		7,008	(24,654)	(49,989)
Gain on available for sale investments		2,142	-	-
Income tax effect		(2,562)	6,903	13,997
Other comprehensive income for the period, net of income tax		6,588	(17,751)	(35,992)
Total comprehensive income for the period		66,047	69,586	111,131
Attributable to:				
Equity holders of the Company		65,888	69,341	110,726
Non-controlling interests		159	245	405
		66,047	69,586	111,131

CONSOLIDATED INTERIM BALANCE SHEET

As at 31 December 2016 (unaudited)

IN NZD 000	Notes	31 Dec 2016	31 Dec 2015	30 Jun 2016 (audited)
Current assets				
Cash and cash equivalents	10	30,074	36,347	22,863
Trade and other receivables	10	68,424	70,065	70,030
Programme rights inventory		64,898	66,868	79,765
Derivative financial instruments	10	2,334	15,712	2,982
		165,730	188,992	175,640
Non-current assets				
Property, plant and equipment		270,409	298,139	283,316
Intangible assets		1,482,358	1,439,283	1,473,172
Available for sale investment	9	6,905	-	4,832
Derivative financial instruments	10	8,785	15,779	6,604
		1,768,457	1,753,201	1,767,924
Total assets		1,934,187	1,942,193	1,943,564
Current liabilities				
Borrowings/bonds	7/10	-	199,763	199,912
Trade and other payables	10	179,672	195,047	200,817
Income tax payable		8,752	7,679	7,071
Derivative financial instruments	10	6,011	3,788	9,670
		194,435	406,277	417,470
Non-current liabilities				
Borrowings	7/10	254,578	39,421	49,468
Bonds	7/10	98,843	98,570	98,705
Derivative financial instruments	10	7,746	8,281	10,951
Deferred tax		39,986	41,226	36,047
		401,153	187,498	195,171
Total liabilities		595,588	593,775	612,641
Equity				
Share capital		577,403	577,403	577,403
Hedging reserve		(66)	13,129	(5,112)
Retained earnings		759,888	756,162	757,417
Total equity attributable to equity holders of the Company		1,337,225	1,346,694	1,329,708
Non-controlling interest		1,374	1,724	1,215
Total equity		1,338,599	1,348,418	1,330,923
Total equity and liabilities		1,934,187	1,942,193	1,943,564



Peter Macourt
Chairman
For and on behalf of the board 21 February 2017



Susan Paterson
Director

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2016 (unaudited)

ATTRIBUTABLE TO OWNERS OF THE PARENT							
IN NZD 000	Notes	Share capital	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 July 2016		577,403	(5,112)	757,417	1,329,708	1,215	1,330,923
Profit for the period		-	-	59,300	59,300	159	59,459
Gain on available for sale investment, net of tax	9	-	-	1,542	1,542	-	1,542
Cash flow hedges, net of tax		-	5,046	-	5,046	-	5,046
Total comprehensive income for the period		-	5,046	60,842	65,888	159	66,047
Transactions with owners in their capacity as owners							
Dividend paid		-	-	(58,371)	(58,371)	-	(58,371)
Supplementary dividends		-	-	(7,532)	(7,532)	-	(7,532)
Foreign investor tax credits		-	-	7,532	7,532	-	7,532
		-	-	(58,371)	(58,371)	-	(58,371)
Balance at 31 December 2016		577,403	(66)	759,888	1,337,225	1,374	1,338,599
For the six months ended 31 December 2015 (unaudited)							
Balance at 1 July 2015		577,403	30,880	727,441	1,335,724	1,479	1,337,203
Profit for the period		-	-	87,092	87,092	245	87,337
Cash flow hedges, net of tax		-	(17,751)	-	(17,751)	-	(17,751)
Total comprehensive income for the period		-	(17,751)	87,092	69,341	245	69,586
Transactions with owners in their capacity as owners							
Dividend paid		-	-	(58,371)	(58,371)	-	(58,371)
Supplementary dividends		-	-	(7,376)	(7,376)	-	(7,376)
Foreign investor tax credits		-	-	7,376	7,376	-	7,376
		-	-	(58,371)	(58,371)	-	(58,371)
Balance at 31 December 2015		577,403	13,129	756,162	1,346,694	1,724	1,348,418
For the year ended 30 June 2016 (audited)							
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		-	(35,992)	-	(35,992)	-	(35,992)
Total comprehensive income for the period		-	(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 INTERIM STATEMENT OF CASH FLOWS

For the six months ended 31 December 2016 (unaudited)

IN NZD 000	Notes	31 Dec 2016 (6 months)	31 Dec 2015 (6 months)	30 Jun 2016 (1 year) (audited)
Cash flows from operating activities				
Profit before tax		88,346	121,371	204,990
Adjustment for non-cash items:				
Depreciation and amortisation		52,207	49,181	100,241
Unrealised foreign exchange (gain)/loss		(490)	190	305
Interest expense		10,588	10,150	20,379
Bad debts and movement in provision for doubtful debts		578	795	2,427
Amortisation of bond issue costs		226	288	573
Other non-cash items		(1,934)	(1,471)	419
Movement in working capital items:				
Increase in receivables		(550)	(1,140)	(2,736)
(Decrease)/increase in payables		(14,283)	14,240	23,576
Decrease/(increase) in programme rights		14,867	5,945	(6,952)
Cash generated from operations		149,555	199,549	343,222
Interest paid		(10,361)	(10,618)	(20,920)
Income tax paid		(18,200)	(31,272)	(46,458)
Net cash from operating activities		120,994	157,659	275,844
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		24	-	-
Acquisition of available for sale investment	9	-	-	(4,832)
Acquisition of property, plant, equipment and intangibles	8	(52,640)	(59,535)	(128,803)
Net cash used in investing activities		(52,616)	(59,535)	(133,635)
Cash flows from financing activities				
Advances received – bank loan	7	220,000	33,000	103,000
Repayment of borrowings – bank loan	7	(15,000)	(43,000)	(103,000)
Repayment of bonds		(200,000)	-	-
Payment of finance lease liabilities		-	(3,294)	(3,294)
Payment of bank facility fees		(264)	(631)	(1,571)
Dividend paid to minority shareholders		-	-	(669)
Dividends paid		(65,903)	(65,747)	(131,707)
Net cash used in financing activities		(61,167)	(79,672)	(137,241)
Net increase in cash and cash equivalents		7,211	18,452	4,968
Cash and cash equivalents at beginning of the period		22,863	17,895	17,895
Cash and cash equivalents at end of the period		30,074	36,347	22,863

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2016 (unaudited)

1. GENERAL INFORMATION

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 interim financial statements of the Group for the six months ended 31 December 2016 comprise SKY 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.

SKY is a leading media company in New Zealand and operates as a provider of multi-channel, pay-per-view and free-to-air television services in New Zealand.

These consolidated interim financial statements were approved by the Board of Directors on 21 February 2017.

2. BASIS OF PREPARATION

These consolidated interim financial statements have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013, the NZX Main Board Listing Rules and the ASX Listing Rules.

These consolidated interim financial statements of SKY are for the six months ended 31 December 2016. They have been prepared in accordance with New Zealand generally accepted accounting practice, NZ IAS 34 Interim Financial Reporting and International Accounting Standard 34 (IAS 34). They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 June 2016. For the purposes of financial reporting SKY is a profit-oriented entity.

The preparation of interim financial statements in accordance with NZ IAS 34 Interim Financial Reporting requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These financial statements have been prepared under the historical cost convention except for the revaluation of certain financial instruments (including derivative instruments).

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 30 June 2016.

4. REVENUE

IN NZD 000	31 Dec 2016 (6 months)	31 Dec 2015 (6 months)	30 Jun 2016 (1 year) (audited)
Residential satellite subscriptions	371,214	383,492	753,115
Other subscriptions	42,182	38,789	79,286
Advertising	35,086	42,322	74,046
Other revenue	9,701	10,951	21,753
	458,183	475,554	928,200

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2016 (unaudited)

5. GROUP STRUCTURE

At 31 December 2016 SKY had the following subsidiaries:

- SKY Ventures Limited
- IGLOO Limited
- Media Finance Limited (non-trading)
- Outside Broadcasting Limited
- Screen Enterprises Limited
- SKY DMX Music Limited (50.5%)
- Believe It or Not Limited (51.0%)

6. RELATED PARTY TRANSACTIONS

There were no loans to directors by the Group or associated parties at any of the reporting dates above.

The gross remuneration of directors and key management personnel during the period was \$7,827,000 (31 December 2015: \$8,266,000; 30 June 2016: \$12,798,000).

7. BORROWINGS

Bonds

Terms and conditions of outstanding bonds are as follows:

	31 Dec 2016	31 Dec 2015	30 Jun 2016 (audited)
Bond A			
Nominal interest rate	-	3.38%	3.38%
Issue date	-	16 Oct 2006	16 Oct 2006
Date of maturity	-	16 Oct 2016	16 Oct 2016
IN NZD 000			
Carrying amount	-	199,763	199,912
Face value	-	200,000	200,000
Fair value	-	197,548	199,000
Market yield	-	5.05%	4.97%
Bond B			
Nominal interest rate	6.25%	6.25%	6.25%
Issue date	31 Mar 2014	31 Mar 2014	31 Mar 2014
Date of maturity	31 Mar 2021	31 Mar 2021	31 Mar 2021
IN NZD 000			
Carrying amount	98,843	98,570	98,705
Face value	100,000	100,000	100,000
Fair value	106,460	107,657	109,644
Market yield	4.57%	4.60%	4.01%

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

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.

Bank Loans

During the period bank borrowings of \$200 million were drawn down to repay Bond A.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2016 (unaudited)

8. CAPITAL EXPENDITURE

The Group acquired the following property, plant and equipment and intangibles during the period:

Group			
IN NZD 000	31 Dec 2016 (6 months)	31 Dec 2015 (6 months)	30 Jun 2016 (1 year) (audited)
Capital projects in progress	11,508	13,225	10,655
Land and buildings	59	396	2,986
Broadcasting and studio equipment	899	53	703
Plant and equipment and other	2,084	2,191	2,039
Decoders	13,634	30,831	67,292
Installation costs	17,241	14,475	32,559
Intangibles	3,317	864	15,949
	48,742	62,035	132,183
Movement in capital expenditure creditors	3,898	(2,500)	(3,380)
Cash outflow in the period	52,640	59,535	128,803

9. AVAILABLE FOR SALE INVESTMENT

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. 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 31 December 2016 was \$6,905,225.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2016 (unaudited)

10. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The Group's activities expose it to a variety of financial risks, market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk) credit risk and liquidity risk.

The consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, they should be read in conjunction with the Group's annual financial statements as at 30 June 2016. There have been no changes in any risk management policies since year end.

Financial assets of the Group include cash, and cash equivalents, trade and other receivables, available for sale investment and derivative financial assets. Financial liabilities of the Group include trade and other payables, borrowings, bonds and derivative financial liabilities. The Group does not hold or issue financial instruments for trading purposes.

Based on NZ IFRS 13 Fair Value Measurement, the fair value of each financial instrument is categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: Quoted prices (unadjusted) in active market for identical assets and 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 9) that is valued on a level 3 basis.

Financial instruments measured at fair value

The following financial instruments are subject to recurring fair value measurements:

IN NZD 000	31 Dec 2016	31 Dec 2015	30 Jun 2016
Derivative financial instruments (Level 2)			
Current assets	2,334	15,712	2,982
Non-current assets	8,785	15,779	6,604
Current liabilities	(6,011)	(3,788)	(9,670)
Non-current liabilities	(7,746)	(8,281)	(10,951)
	(2,638)	19,422	(11,035)
Available for sale investment (Level 3)			
Non-current assets	6,905	-	4,832

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2016 (unaudited)

10. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments not measured at fair value

The following financial instruments are not measured at fair value in the consolidated interim financial statements. These had the following fair values as at December 2016:

IN NZD 000	31 Dec 2016		31 Dec 2015		30 Jun 2016	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cash and cash equivalents	30,074	30,074	36,347	36,347	22,863	22,863
Trade and other receivables	62,614	62,614	63,204	63,204	61,752	61,752
	92,688	92,688	99,551	99,551	84,615	84,615
Financial liabilities						
Trade and other payables	(86,284)	(86,284)	(98,313)	(98,313)	(110,634)	(110,634)
Bank borrowings	(254,578)	(253,419)	(39,421)	(38,704)	(49,468)	(44,366)
Bonds	(98,843)	(106,460)	(298,333)	(305,205)	(298,617)	(308,644)
	(439,705)	(446,163)	(436,067)	(442,222)	(458,719)	(463,644)

Prepaid expenses, deferred revenue, unearned subscriptions, tax payables and employee benefits do not meet the definition of a financial instrument and have been excluded from the "Trade and other receivables" and "Trade and other payables" categories above. Prior period balances for trade and other payables have been restated to exclude tax payables and employee benefits so as to be consistent with the current period.

Due to their short-term nature, the carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables is assumed to approximate their fair value.

The fair value of long-term borrowings are estimated by discounting future cash flows using current market interest rates offered to the Group for debt with substantially the same characteristics and maturities. The interest rates used in estimating the fair value of long-term debt were as follows:

Interest Rates

	31 Dec 2016	31 Dec 2015	30 Jun 2016
Bond A	-	5.05%	4.97%
Bond B	4.57%	4.60%	4.01%
Bank Borrowings	3.38%	4.19%	3.84%

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable inputs. The fair value of forward foreign exchange contracts is based on market forward foreign exchange rates at period end.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 2016 (unaudited)

11. CONTINGENT LIABILITIES

The Group is subject to litigation incidental to its 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.

12. SUBSEQUENT EVENTS

Acquisition of Vodafone: At a special meeting on 6 July 2016 SKY shareholders voted to approve the acquisition of Vodafone NZ for a proposed transaction price of \$3.44 billion, to approve the incurrence of new debt and to approve the issue of new shares to Vodafone Plc.

Subject to regulatory approvals (which is expected to be by 23 February 2017), SKY will acquire all of the shares in Vodafone NZ from Vodafone Europe B.V for a total purchase price of \$3.44 billion, paid for through a mixture of cash and SKY shares. The issue of shares will result in Vodafone owning 51% of the total number of shares in SKY. The purchase price will consist of the issue of 405,023,041 shares at a price of \$5.40 and a cash payment of \$1.25 billion totalling approximately \$3.44 billion.

The transaction will be financed by new debt of up to \$1.8 billion which has been negotiated at favourable terms with Vodafone Overseas Finance Limited. However SKY retains the right to renegotiate the revolving credit portion of this debt with one or more third parties. The balance of the bank debt which is currently shown as a non-current liability is expected to be settled shortly after the merger date.

For further details relating to this transaction please refer to the Explanatory Memorandum on SKY's website www.skytv.co.nz/investor.

On 31 January 2017 the Board of Directors announced that it will pay a fully imputed dividend of 15 cents per share with the record date being 15 February 2017. A supplementary dividend of 2.6471 cents per share will be paid to non-resident shareholders subject to the foreign investor tax credit regime.

INDEPENDENT REVIEW REPORT

to the shareholders of Sky Network Television Limited



Report on the Interim Financial Statements

We have reviewed the accompanying condensed consolidated interim financial statements ("interim financial statements") of Sky Network Television Limited ("the Company") on pages 8 to 17 which comprise the balance sheet as at 31 December 2016 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period ended on that date and selected explanatory notes for the Group. The Group comprises the Company and the entities it controlled at 31 December 2016 or from time to time during the period.

Directors' Responsibility for the Financial Statements

The Directors are responsible on behalf of the Company for the preparation and presentation of these interim financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the directors determine are necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a conclusion on the accompanying interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditors perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these interim financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the area of assurance and advisory services. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. The provision of these other services has not impaired our independence.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of the Company are not prepared, in all material respects, in accordance with NZ IAS 34.

Restriction on Use of Our Report

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in our review 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 shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

**Chartered Accountants
Auckland**

21 February 2017

DIRECTORS AND EXECUTIVES

DIRECTORS

John Fellet	Chief Executive
Derek Handley	
Peter Macourt	Chairman
Geraldine McBride	
Susan Paterson ONZM	
John Waller ONZM	(Retired 15 September 2016)

EXECUTIVES

John Fellet	Director and Chief Executive Officer
Jason Hollingworth	Chief Financial Officer and Company Secretary
Travis Dunbar	Director Entertainment Programming
Megan King	Director of Content: Strategy, Planning and Delivery
Richard Last	Director of Sport
Chris Major	Director of Government Relations
Rawinia Newton	Director of Advertising Sales
Cathryn Oliver	Chief of Staff
Matthew Orange	Director of Products and Ventures
Tex Teixeira	Director of Broadcast and Media
Michael Watson	Director of Marketing
Kirsty Way	Director of Corporate Communications
Julian Wheeler	Director of Technology
Martin Wrigley	Director of Operations

DIRECTORY

REGISTRARS

Shareholders should address questions relating to share certificates, notify changes of address or address any administrative questions to SKY's share registrar as follows:

NEW ZEALAND ORDINARY SHARE REGISTRAR

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna, North Shore City 0622
New Zealand

Mailing address:

Private Bag 92119
Auckland Mail Centre
Auckland 1142
New Zealand

Tel: +64 9 488 8777 **Fax:** +64 9 488 8787

Email: enquiry@computershare.co.nz

AUSTRALIAN BRANCH REGISTER

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford, VIC 3067
GPO Box 2975EE
Melbourne VIC 3000
Australia

Freephone: 1300 850 505 (within Australia)

Tel: +61 3 9415 4000 **Fax:** +61 3 9473 2500

Email: enquiry@computershare.co.nz

BONDHOLDER TRUSTEE

The New Zealand Guardian Trust Company Limited
Level 7, Vero Centre, 48 Shortland Street
Auckland 1010
New Zealand

Mailing address:

P.O. Box 1934
Auckland 1140
New Zealand

Tel: +64 9 377 7300 **Fax:** +64 9 377 7470

Email: web.corporatetrusts@nzgt.co.nz

NEW ZEALAND REGISTERED OFFICE

10 Panorama Road
Mt Wellington
Auckland 1060
New Zealand

Tel: +64 9 579 9999 **Fax:** +64 9 579 8324

Website: www.skytv.co.nz

AUSTRALIAN REGISTERED OFFICE

c/- Allens Arthur Robinson Corporate Pty Limited
Level 28, Deutsche Bank Place
Corner Hunter and Philip Streets
Sydney, NSW 2000
Australia

Tel: +61 2 9230 4000 **Fax:** +61 2 9230 5333

AUDITORS TO SKY

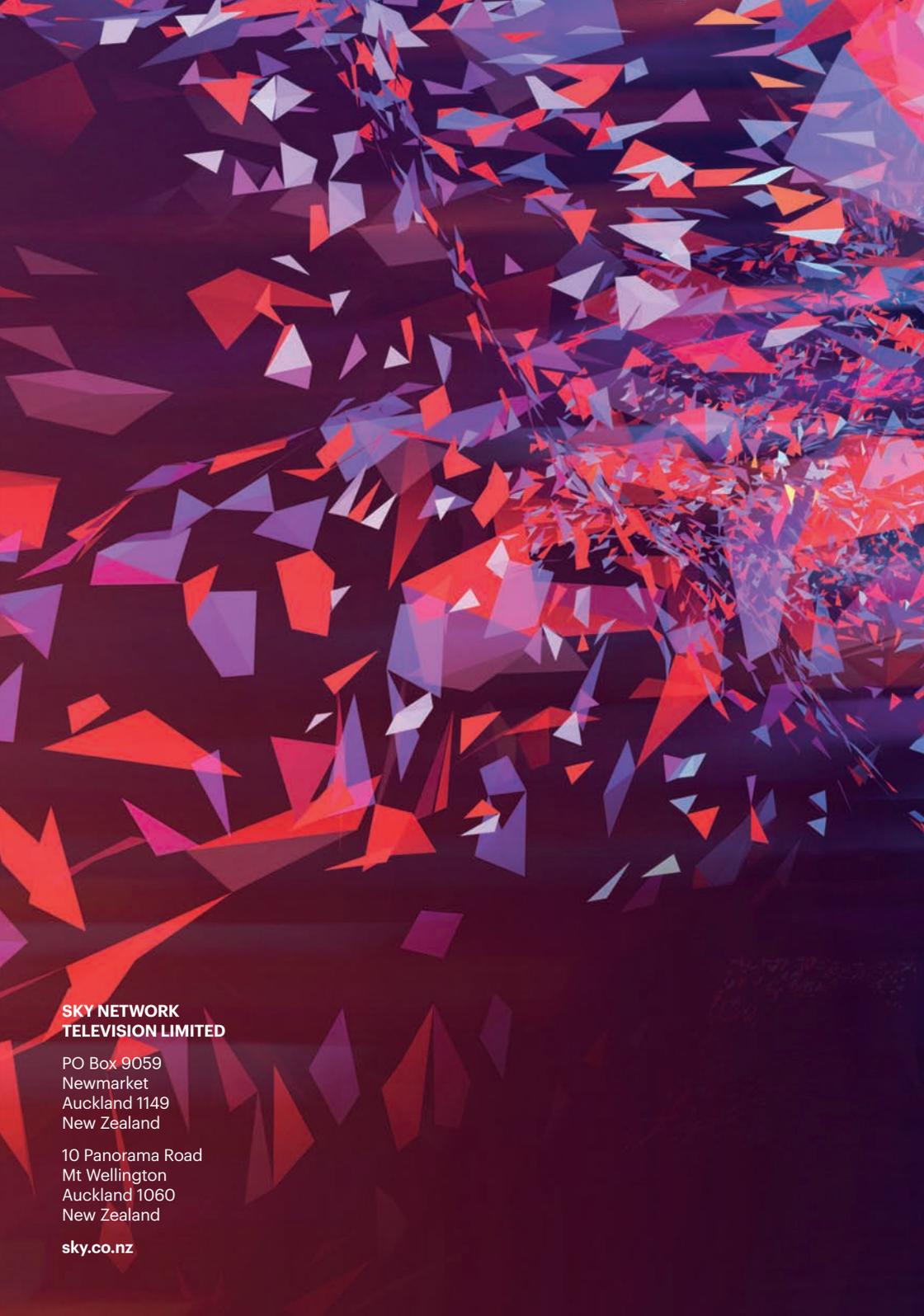
PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street
Auckland 1010
New Zealand

Tel: +64 9 355 8000 **Fax:** +64 9 355 8001

SOLICITORS TO SKY

Buddle Findlay
PricewaterhouseCoopers Tower
188 Quay Street
Auckland 1010
New Zealand

Tel: +64 9 358 2555 **Fax:** +64 9 358 2055



**SKY NETWORK
TELEVISION LIMITED**

PO Box 9059
Newmarket
Auckland 1149
New Zealand

10 Panorama Road
Mt Wellington
Auckland 1060
New Zealand

sky.co.nz