

Principal risks and uncertainties

The Board has overall responsibility for determining the nature and extent of the principal risks it is willing to take to achieve its strategic objectives, as well as establishing and maintaining the Group's systems of internal control and risk management and reviewing the effectiveness of those systems.

Additional information on the Group's internal control and risk management processes is set out in the Corporate Governance Report and in the Audit Committee Report.

 For more on the Corporate Governance Report see pages 38 to 49

The Group has a formal risk management framework embedded within the business to support the identification and effective management of risk across the Group. The divisions within the Group are each responsible for managing and reporting risk in accordance with the Group's risk management policy and standards that have been approved by the Audit Committee.

The risks are then consolidated into a Group risk register which provides an overview of the Group risk profile.

The Board, through the Audit Committee, conducts a robust assessment of the Group's principal risks, including those that would threaten its business model, future performance, solvency or liquidity, and their mitigation.

The Group risk register is reported to the Audit Committee typically twice a year.

Detailed controls and any relevant action plans are monitored by the Group Risk team on an ongoing basis.

There is an ongoing monitoring process which is operated by the Group Risk team and supported by senior management across the Group, to identify and report to the Audit Committee on significant changes or new risks.

The outcome of last year's UK referendum continues to cause uncertainty in both the political and economic environments in which we operate.

Although the large majority of our revenue is from subscriptions, we are not immune from the impact of any economic uncertainty. We do, however, believe that our business model means that we are comparatively well-placed to manage the consequences of the result and of its effect on the economic environment. Our operations are conducted mainly on a territorial basis and our business involves limited movement of goods and services between the UK and the rest of the EU and, to the extent that it does, we can adapt our business processes as necessary. Like all companies, we will need to monitor and manage the practical implications as they occur. Where appropriate we have also outlined in the table below the impact of the result on our principal risk and uncertainties.

This section describes the current principal risks and uncertainties facing the Group. In addition to summarising the material risks and uncertainties, the table below gives examples of how we mitigate those risks.

Description of risk	Mitigation
<p>Market and competition:</p> <p>The Group operates in a highly competitive environment and faces competition from a broad range of organisations. Technological developments also have the ability to create new forms of quickly evolving competition. A failure to develop the Group's product proposition in line with changing market dynamics and expectations could erode the Group's competitive position.</p> <p>Great content is central to Sky's product proposition and increased competition could impact the Group's ability to acquire content that our customers want on commercially attractive terms.</p> <p>Economic conditions have been challenging in recent years across the territories in which the Group operates and the outcome of the UK referendum has caused further economic uncertainty. A significant economic decline in any of those territories could impact the Group's ability to continue to attract and retain customers in that territory.</p>	<p>The Group continues to make significant investments in innovation.</p> <p>The Group's product development strategic aim is to be at the forefront of progressive technology.</p> <p>Please see the 'Innovation' section on page 8 of the Group Chief Executive's Statement for further details of these products.</p> <p>The Group regularly reviews its pricing and packaging structures to ensure that its product proposition is appropriately placed within the market.</p> <p>The Group works closely with its marketing partners to ensure that the value of its offering is understood and communicated effectively to its customers.</p> <p>The Group makes significant investment in the origination of content as well as in acquisition from across the world.</p> <p>The Group also works to develop and maintain the brand value associated with its individual channels.</p>
<p>Regulatory breach and change:</p> <p>The Group's ability to operate or compete effectively could be adversely affected by the outcome of investigations or by the introduction of new laws, policies or regulations, changes in the interpretation or application of existing laws, policies and regulations, or failure to obtain required regulatory approvals or licences. Please see page 32 of the 'Regulatory Matters' section for further details.</p> <p>The Group is subject to regulation primarily under Austrian, German, Irish, Italian, UK and European Union legislation.</p> <p>The regimes which apply to the Group's business include, but are not limited to:</p> <ul style="list-style-type: none"> Broadcasting – as a provider of audiovisual media services, the Group is subject to Austrian, German, Italian and UK licensing regimes under the applicable broadcasting and communications legislation. These obligations include requirements to comply with relevant codes and directions issued by the relevant regulatory authorities, including for example, in the UK, Ofcom's Broadcasting Code, Code on the Scheduling of Television Advertising and Cross-Promotion Code; Technical services – as a provider of certain technical services in the UK and Germany, Sky UK and Sky Deutschland are subject to regulation in their respective countries; and 	<p>The Group manages these risks through active engagement in the regulatory processes that affect the Group's business.</p> <p>The Group actively seeks to identify and meet its regulatory obligations and to respond to emerging requirements. This includes, for example:</p> <ul style="list-style-type: none"> Broadcasting – compliance controls and processes are in place in the Group's content services. Interaction with the relevant regulatory authorities is co-ordinated between the relevant local Compliance, Regulatory and Legal departments; Technical services – with respect to the provision of certain technical services in the UK and Germany, processes are in place to monitor third-party broadcaster access to the relevant broadcast platforms and to ensure that this is provided on fair, reasonable and non-discriminatory terms;

Description of risk	Mitigation
<ul style="list-style-type: none"> Telecommunications – Sky UK is subject to the General Conditions of Entitlement adopted under the Communications Act 2003 (UK) and the Conditions for the provision of Electronic Communications Networks and Services under the Communications Regulation Act 2002 (Ireland), which impose detailed requirements on providers of communications networks and services. <p>The Group is also subject to generally applicable legislation including, but not limited to, competition (antitrust), anti-bribery, consumer protection, data protection and taxation.</p> <p>The Group is currently, and may be in the future, subject to proceedings, and/or investigation and enquiries from regulatory and antitrust authorities.</p> <p>The telecommunications and media regulatory framework applying to the Group in the UK and the EU may be subject to greater uncertainty in the event that the UK leaves the EU. Potential changes to the regulatory framework could include divergence in the long term between the UK and EU regulation of telecommunications and media, and changes to certain mutual recognition arrangements for media and broadcasting. Sky does not currently foresee any regulatory changes as a result of a UK exit that would have a material impact on its business.</p> <p>Please see page 32 of the 'Regulatory Matters' section for further details.</p>	<ul style="list-style-type: none"> Telecommunications – compliance controls and processes are in place in the UK and Ireland, overseen by the Customer Compliance Committee, to monitor compliance and performance against the General Conditions of Entitlement and the Conditions for the provision of Electronic Communications Networks and Services. <p>The Group maintains appropriate oversight and reporting, supported by training, to provide assurance that it is compliant with regulatory requirements.</p> <p>The Group will monitor carefully future developments that arise out of the result of the recent UK referendum and will engage in any relevant regulatory processes.</p>
<p>Customer service:</p> <p>A significant part of the Group's business is based on a subscription model and its future success relies on building long-term relationships with its customers. A failure to meet its customers' expectations with regard to service could negatively impact the Group's brand and competitive position.</p>	<p>The Group strives consistently to exceed its customers' expectations, to put its customers first, to understand what they want and to be responsive to what they say.</p> <p>The Group makes significant investments in order to deliver continuous development and improvement to its customer service capabilities, including investment in its contact centres across the UK and Ireland, insourcing of service centres in Germany and implementing ongoing training and development plans.</p> <p>The Group tracks its customer service performance, benchmarks its customer service experience and strives to be best in class.</p>
<p>Technology and business interruption:</p> <p>The products and services that the Group provides to its customers are reliant on complex technical infrastructure.</p> <p>A failure in the operation of the Group's key systems or infrastructure, such as the broadcast platform, customer management systems, OTT platforms or the telecommunications networks on which the Group relies, could cause a failure of service to our customers and negatively impact our brand.</p>	<p>The Group makes significant investment in technology infrastructure to ensure that it continues to support the growth of the business and has a robust selection and monitoring process of third-party providers.</p> <p>The Group is committed to achieve best in class business continuity standards and makes significant investments in the resilience and robustness of its business infrastructure.</p> <p>The Group also organises regular scenario-based group-wide business continuity exercises to ensure ongoing readiness of key staff, systems and sites.</p>
<p>Suppliers:</p> <p>The Group relies on a number of third parties and outsourced suppliers operating across the globe to support its business.</p> <p>A significant failure of a supplier or a discontinuation of supply could adversely affect the Group's ability to deliver operationally.</p>	<p>The Group continues to invest in its supply chain infrastructure to support its business plan commitments.</p> <p>A robust supplier selection process is in place with appropriate ongoing management and monitoring of key partners and suppliers.</p> <p>The Group performs regular audits of key suppliers and of their installations and, wherever possible, has dual supply capability.</p>

Principal risks and uncertainties – continued

Description of risk	Mitigation
<p>Financial:</p> <p>The effective management of its financial exposures is central to preserving the Group's profitability.</p> <p>The Group is exposed to financial market risks and may be impacted negatively by fluctuations in foreign exchange and interest rates, which create volatility in the Group's results to the extent that they are not effectively hedged.</p> <p>Any increase in the financial leverage of the Group may limit the Group's financial flexibility.</p> <p>The Group may also be affected adversely by liquidity and counterparty risks.</p>	<p>The Group's finance teams are embedded within the business to provide support to management and to ensure accurate financial reporting and tracking of our business performance. Reporting on financial performance is provided on a monthly basis to senior management and the Board.</p> <p>The Group continually invests in the improvement of its systems and processes in order to ensure sound financial management and reporting.</p> <p>The Group has a formal Treasury Policy which is reviewed and approved by the Audit Committee on an annual basis. In addition, the Group COO and CFO monitors the Treasury Policy on an ongoing basis to ensure its continuing appropriateness. The Treasury Policy covers all areas of treasury risk including foreign exchange, interest rate, counterparty and liquidity.</p> <p>The Group manages treasury risk by minimising risk to capital and uses appropriate hedging instruments and strategies to provide protection against adverse foreign exchange and interest rate movements.</p> <p>Trading transactional currency risk is hedged up to five years in advance. Interest rate risk protection is in place using interest rate swaps and an appropriate currency mix of debt is maintained using cross-currency swaps.</p> <p>Cash investment is made in line with the Treasury Policy which sets limits on deposits based on counterparty credit ratings. No more than 10% of the Group's cash deposits are held with a single bank counterparty, with the exception of overnight deposits which are invested in a spread of AAAF-rated liquidity funds.</p> <p>The Group maintains headroom within our banking covenants to allow for unforeseen adverse impacts on our leverage ratio as a result of either economic decline or extreme currency movements.</p> <p>The Group maintains strong liquidity as part of its core strategy, with high cash balances and a £1 billion fully undrawn revolving credit facility.</p> <p>The Group manages its tax risk by ensuring that risks are identified and understood at an early stage and that effective compliance and reporting processes are in place.</p> <p>The Group continues to maintain an open and proactive relationship with all relevant tax authorities, including HM Revenue & Customs. The Group aims to deal with taxation issues, wherever possible, as they arise in order to avoid unnecessary disputes.</p>
<p>Security:</p> <p>The Group must protect its customer and corporate data and the safety of its people and infrastructure as well as needing to have in place fraud prevention and detection measures.</p> <p>The Group is responsible to third-party intellectual property owners for the security of the content that it distributes on various platforms (Sky's own and third-party platforms).</p> <p>A significant breach of security could impact the Group's ability to operate and deliver against its business objectives.</p>	<p>The Group takes measures ranging from physical and logical access controls to encryption, or equivalent technologies, raising employee awareness and monitoring of key partners to manage its security risks.</p> <p>The Group continues to invest in new technological controls and in improving broader business process and works closely with law enforcement agencies and policy makers in order to protect its assets and to comply with its contractual obligations to third parties.</p>
<p>Projects:</p> <p>The Group invests in, and delivers, significant capital expenditure projects in order to continually drive the business forward. The level of the Group's capital expenditure has increased as a result of the increased size of the Group's business following completion of the acquisitions of Sky Deutschland and Sky Italia.</p> <p>The failure to deliver key projects effectively and efficiently could result in significantly increased project costs and impede our ability to execute our strategic plans.</p>	<p>A common project management methodology is used to enable the Group to manage, monitor and control its major capital expenditure projects and strategic programmes. This includes detailed reporting and regular reviews by senior management as well as cross-functional executive steering groups for major projects.</p> <p>Third-party partners will, where appropriate, be engaged to provide support and expertise in our large strategic programmes, complex initiatives and for emerging technologies.</p>

Description of risk

Intellectual property protection:

The Group, in common with other service providers, relies on intellectual property and other proprietary rights, including in respect of programming content, which may not be adequately protected under current laws or which may be subject to unauthorised use.

Mitigation

We maintain an ongoing programme to support appropriate protections of our intellectual property and other rights. This involves both unilateral action and close co-operation with rights licensors and other bodies. This includes, for example, the use of automated online monitoring tools, the implementation of on-screen imprinting of content and steps in support of the Premier League's action to require UK ISPs to block illegal streams of live PL matches together with an active programme to protect our intellectual property rights.

People:

People at Sky are critical to the Group's ability to meet the needs of its customers and achieve its goals as a business.

Failure to attract or retain suitable employees across the business could limit the Group's ability to deliver its business plan commitments.

Making Sky a great place to work is central to the Group's strategy. The Group champions diversity and develops talent through a number of activities, including the Graduate programme, Development Studio, an apprenticeship scheme and a leadership programme. The Group invests in the working environment to make Sky an even more appealing place to work.

The Group has well established channels and procedures to recruit and retain its employees, and to ensure that an adequate number of suitable employees work within its customer service teams and across all its operations.

Further details on our people is set out in the Employees section of the Directors' Report on page 71.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2016, the Directors have assessed the viability of the Group over the three years to 30 June 2020. The assessment has taken account of the current position of the Group and the potential impact of the principal risks detailed on page 28 to 31 of the Annual Report.

The Directors believe that an assessment period of three years is appropriate based on management's reasonable expectations of the position and performance of the Company over this period, taking account of its strategic plans. The Directors' assessment included a review of the financial impact of the most severe principal risks that could threaten the viability of the Company. The financial impact was tested taking account of currency downside risk and the likely effectiveness of the potential mitigations that management reasonably believes would be available to the Company over this period, enabling the net financial effect to be calculated. The Audit Committee reviewed and discussed the process undertaken by management.

Based on the results of the assessment, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 30 June 2020.

In assessing the prospects of the Company, the Directors noted that such assessment is subject to a degree of uncertainty that can be expected to increase looking out over time and, accordingly, that future outcomes cannot be guaranteed or predicted with certainty.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 2 to 33. The financial position of the Group, its cash flows and liquidity position are described in the Financial review on pages 24 to 27. In addition, notes 1 to 29 to the consolidated financial statements include details of the Group's treasury activities, long-term funding arrangements, financial instruments and hedging activities and exposure to financial risk.

As set out above, the Group has sufficient financial resources which, together with internally generated cash flows, will continue to provide sufficient sources of liquidity to fund its current operations, including its contractual and commercial commitments as set out in note 25 on page 125, its approved capital expenditure and any proposed dividends, and the Group is well placed to manage its business risks successfully, despite the current economic outlook.

After making enquiries, the Directors have formed the judgement, at the time of approving the consolidated financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements.