



Believe in better

# Making life better by entertaining and connecting people

At Sky we provide our millions of customers with the very best TV experience. That means offering them the best entertainment from major live sporting events, gripping drama, the best shows from the US and blockbuster movies across a choice of brilliant platforms. We also believe that everyone deserves exceptional service and we strive to improve what we do every day for our customers.



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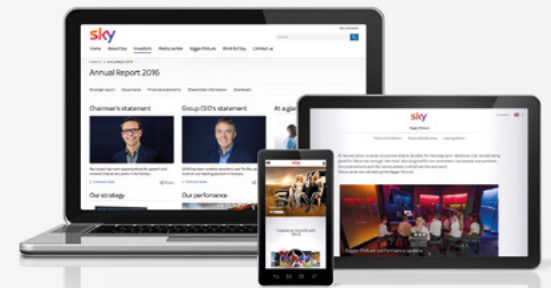
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To find out more about our products and services go to [www.sky.com](http://www.sky.com)

To find out more about Sky go to [www.sky.com/corporate](http://www.sky.com/corporate)

For more about how we're making a wider contribution go to [www.sky.com/biggerpicture](http://www.sky.com/biggerpicture)

# Europe's leading entertainment and communications business

## Our customers and products

22m

customers

57m

products

- ▶ Millions of households enjoy market-leading Sky TV
- ▶ Plus flexible contract-free streaming services, NOW TV and Sky Online
- ▶ Broadband, talk and line rental services also available in the UK and Ireland

## Watching anytime, anywhere

11m

connected homes

1,000+

movies on demand

- ▶ Sky Box Sets available in all markets
- ▶ 10 million homes registered for our mobile TV Service, Sky Go
- ▶ Over 3 billion annual views to on demand and Sky Go



## Our people and our operations

30,000+

employees

11,000+

customer service agents and engineers

200m+

visits to service apps or websites

## Our locations

Headquarters

London, Munich and Milan

32

sites including contact centres, technology hubs and broadcast centres

Operating across Europe

UK, Ireland, Germany, Austria and Italy

Europe's leading investor in content

Offering customers world-leading entertainment

£5.2bn

annual content investment

600+

pay channels across the group

80,000+

hours of live sports coverage

6.5m+

average audience of Game of Thrones Season 6

Our flagship brands



- ▶ 22 Sky original dramas in production
- ▶ Very best US shows from long-term, exclusive group-wide deals with HBO and Showtime
- ▶ Blockbuster movie titles one year before any other subscription service



Our financial performance<sup>1</sup>

£12bn

revenue

£1.6bn

operating profit

63.1p

earnings per share

Our contribution to wider society

130,000

jobs supported across Europe<sup>2</sup>

370,000

young people participated in Sky Academy since launch

10 years

carbon neutral

<sup>1</sup> Our financial performance is based on adjusted numbers for the year ended 30 June 2016. <sup>2</sup> Independently calculated by Oxford Economics, July 2015.

## Chairman's statement



James Murdoch  
Chairman

Sky today has more opportunities for growth and renewal than at any point in its history. In my 13 years at Sky I have never felt more proud of what we have achieved, or more optimistic about where we are going.

Our culture, which animates all our work, drives every one of us to think differently to improve the experience we offer our customers every day. It's what has enabled us to move beyond our heritage in satellite pay TV to create a business that spans multiple technologies, products, platforms, business models and markets.

We now work across five European markets, all of which have attractive opportunities for growth. With each at a different stage in their journey, the entire group now benefits from pooled resources and extensive expertise, accelerating our progress and ambitions everywhere.

Our Board and experienced management team is focused on ensuring that Sky remains the home of the very best shows; delivers brilliant product innovation; and always offers standout customer service. It's this focus, on the areas that matter most to our customers, that makes Sky the clear market-leader and the choice for individuals and families who want the best TV.

The success of our approach is demonstrated in the sustained financial and operational performance of the group, with further strong revenue and profit growth delivered again this year. Our consistent, long-term performance is the result of a clear strategy and exceptional execution by all of our colleagues. It has enabled the Board to propose an increase in dividend for the 12th consecutive year to 33.5 pence.

It is also a source of immense pride to me that across Europe we support around 130,000 jobs, contribute almost £8 billion to GDP and £3.4 billion of tax revenues (Oxford Economics 2015).

We invest £5 billion every year, delivering high-quality news, sport and entertainment programming. And we see the bigger picture, from acting responsibly in the way we run our business every day, to making a meaningful impact to the confidence and motivation of the thousands of young people who participate in Sky Academy every year.

I must take this opportunity to thank Nick Ferguson, who stepped down as Chairman and as a Director in April after 12 years on the Board, four of which as Non-Executive Chairman. Nick has been an exceptional leader of our Board and made an outstanding contribution during a transformative period for the company.

Other changes to our Board were the retirements of Arthur Siskind, David DeVoe and Danny Rimer, who stepped down from the Board at the conclusion of the AGM, when we welcomed John Nallen, who was appointed as a Non-Executive Director on 4 November 2015. The Board is grateful to Arthur, David and Danny for their contributions during their time at Sky. Arthur and David served Sky since 1991 and 1994 respectively, and have been a constant, steadfast, and crucial presence. Danny, who joined the Board in 2008, has provided a valuable perspective for seven years of constant change, challenge and innovation. Further to these changes, at the conclusion of this year's AGM in October, Dave Lewis will step down from the Board. I would like to thank Dave for his significant contribution since joining the Board in 2012. On behalf of the Board I would also like to thank all our shareholders for their continued support.

Finally, thanks to every one of my Sky colleagues for their efforts this year. Our talented and dynamic teams have continued to challenge themselves in the pursuit of excellence for our customers.

This is evident in so many ways, from the launch of breakthrough products like Sky Q and the NOW TV Combo, to great storytelling across each and every genre, including our hugely popular Italian production *Gomorrah* and our record-breaking Bundesliga coverage in Germany. Our original productions, coupled with our exclusive partnerships with HBO, Showtime and others are testament to our constant commitment to delivering the very best television, with world-leading innovation that continues to surprise and delight our customers.

Sky has always been a business that believes in and strives for better. I have every confidence that we will continue to create opportunities for growth and pursue them with energy, passion and commitment for the benefit of our customers, our people, our industry and, of course, our shareholders.



James Murdoch

**Gomorrah**



Ashes Series 2015



Sky Academy Arts Scholarships 2016

## Group Chief Executive's statement

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Jeremy Darroch  
Group Chief Executive

2016 has been another excellent year for Sky, as we build on our leading position in Europe, working to achieve our ambition of being the best customer-led entertainment and communications company in the world.

Two years on from the creation of the enlarged Sky group we have successfully broadened our business and expanded into new markets and customer segments.

I am delighted that the benefits of our acquisitions of Sky Deutschland and Sky Italia are not only evident, but gaining in momentum. We are sharing resources, expertise and innovation across all our markets, applying our proven strategy right across the group at pace. And we are leveraging the opportunities of scale, as we create even better programmes and as we build group-wide campaigns – two of the many ways in which we are becoming more efficient and more effective.

Each of our markets has great potential and we are working together to build a bigger and stronger business for the long term. We are investing in world-class entertainment in every market, distributed across an unrivalled choice of market-leading platforms and supported by brilliant service, because these are the things that really matter to customers.

Our deep insights into the changing needs of our customers, along with our investments in technology, our strong relationships with our partners and above all our ability to adapt to and embrace change, means that we continue to push ourselves forward. We have the group structures and talented leadership in place to enable us to make the right decisions and invest for the future, for the benefit of all our stakeholders.

### Strong performance across the group

As an enlarged group operating across territories at different stages of development and in markets and segments with different structures, we measure our success by how the group comes together to deliver consistent long-term growth.

This year we have achieved another very strong performance across all of our markets, which has enabled us to close the year with group revenues up 7% to £11,965 million and a 12% increase in operating profit to £1,558 million.

We also delivered strong customer growth across the group, adding 808,000 customers in the year. Our customers continue to respond to the service we provide and chose to take more entertainment and communication products from our trusted brand. This year, we added 3.3 million new products, taking our total product base to over 57 million.

This year's strong performance is a continuation of the momentum we have built in our business. In the last five years we have added £5.4 billion of revenue and attracted 11.5 million new customers as we continued to invest in our market-leading propositions.



**Sustained strong performance in the UK and Ireland**

The UK and Ireland is our largest and most profitable business, with an established customer-centric strategy for growth and a very strong consumer brand. Our approach of segmenting the market with a choice of outstanding products and services to suit the different needs of each customer has enabled us to exceed revenue of £8 billion for the first time this year. We attracted 445,000 new customers, taking our customer base to 12.4 million and sold a further 2.3 million products, passing the major milestone of 40 million products in UK and Irish households.

**Significant progress in Germany and Austria**

We have made excellent progress in Germany and Austria this year, as we apply our successful group approach with focus and pace. This is significantly improving the Sky proposition for customers, as we move from a business built on a strong and distinct sports and movie offering, to a much more broad entertainment offer, packaged flexibly for customers. With the business now in growth, the impact of this transition is clear. We closed the year with our highest ever quarterly profit, having added 346,000 new customers and a further 909,000 products.

**Momentum in Italy**

In Italy, our focus is on increasing quality and choice for customers, while extending our reach across multiple platforms. This is transforming the potential of our business and we are already seeing the positive effect of our approach. Our customer base returned to growth for the first time in five years and we added 26,000 new products. This has all been achieved in a competitive environment and against a continued difficult economic backdrop, underlining the resilience of our customer-centric approach.



**The Last Panthers**

**World-class content**

2016 has been an outstanding year for our entertainment, sport and movies. We've extended our position as a European powerhouse for TV. Our strategy of securing long-term, strategic rights deals to complement our growing investment in Sky original programming is paying dividends, ensuring that we offer exclusive, world-class content in each of our markets.

In entertainment, we have enhanced our growing reputation for creating high-quality original programming, led by the very best talent. Following the success of *Fortitude* last year, Sky Atlantic launched the gripping crime drama, *The Last Panthers*, to critical acclaim across all five markets. The second series of our award-winning Italian crime drama, *Gomorra*, also aired across all territories. There will be much more to come as more Sky original dramas enter development or production across the group than ever before.

Sky Atlantic continues to build its position as the destination for the world's best storytelling, with HBO's phenomenally successful *Game of Thrones* generating record audiences across the group once again. This year we welcomed Showtime to the channel – one of the world's most acclaimed networks – in a long-term deal across the group. This has secured more award-winning shows for customers such as *Billions*, *The Affair* and the return of *Twin Peaks*.

We've taken huge strides in the service we offer to families, with the expansion of our kids service. This year we launched a brand new Sky Kids app, offering a fun and safe way for children to enjoy the widest range of popular shows as well as exclusive programmes. Launching first in the UK and Ireland, the app is launching in Germany this summer, followed by Italy later in the year.

In June, we announced the rebranding of our movies service in the UK to Sky Cinema, as we significantly improve the proposition for customers and align the brand across the group. During the year, we also secured our first pan-European deal for movies with Sony Pictures.



**Thierry Henry,**  
Sky Academy Ambassador



25 years of Sky Sports

In sport, we celebrated the tremendous milestone of the 25th anniversary of Sky Sports in the UK and Ireland and delivered record viewing right across the group. We also secured a plethora of brilliant rights; from becoming the exclusive home of Formula 1 in the UK and Ireland from 2019, to securing all four golf majors, as well as the Ryder Cup for the first time. In Germany, we were confirmed as the undisputed home of football with rights to 93% of all Bundesliga matches to 2021, while in Italy, we acquired exclusive rights to the English Premier League for the next three seasons.

Our ambition for Sky News is to create the best mobile and TV service in the UK. Our coverage of major news events during the year was widely acclaimed, including the Queen's 90th birthday and the EU Referendum campaign at home. Sky News received five Royal Television Society Awards including News Channel of the Year for a record tenth time. More than five million people a week watched Sky News across the year with a similar number using our website and mobile apps.

## Innovation

2016 has been a very strong year for our product innovation, with the introduction of industry-leading technology right across our portfolio. We continue to transform the viewing experience for all our customers, making it even easier for them to access our great content, wherever and whenever they like.

In February, we had our most successful TV product launch ever as we introduced Sky Q in its first markets, the UK and Ireland. The groundbreaking, next generation home entertainment system is changing the way customers watch TV. In July, we announced our comprehensive Ultra HD service, giving Sky Q customers an even richer viewing experience.

It was also a big year for our streaming service, NOW TV, with the launch of the unique NOW TV Combo, the UK's first no-contract triple play offering, giving customers complete flexibility over their TV, broadband and calls. This was accompanied by the launch of a brand new NOW TV Smart Box, giving seamless access to over 60 free-to-air channels alongside the best of pay TV. We also launched NOW TV in Italy, giving customers contract-free and flexible access to our great content.

Our connected home strategy is aligned with our customer needs. We now have 11 million customers who have chosen to connect their boxes to the internet, up 2 million year on year. This has led to almost 3.6 billion views across our connected services in the past year, up over 40% year on year, as customers continue to value the greater choice and flexibility this offers. In both Germany and Italy, we launched our full On Demand service, including Sky Box Sets, to a fantastic response from customers.

## Best in class customer service

With the customer at the heart of everything we do, I'm proud that the Sky brand continues to be trusted by customers.

The way in which many customers want to interact with us is changing and we have responded by making sure we are available both at the right time and via the right channels, to offer the best possible service.

More than one-third of our customer service interactions in the UK are now made on our digital channels, reflecting the changing preferences of our customers. This has reduced calls per customer by 10% year on year – the equivalent of 2.4 million fewer calls per year – and over 50% of our UK sales are now made online. This increased digital interaction is leading to improved customer satisfaction, with net promoters scores at an all-time high. And I am extremely pleased that in the UK we achieved the highest customer satisfaction levels in the industry, as ranked in Ofcom's customer service report.

We continue to improve our performance as we share best practice across the group. In Italy, our commitment to a 'one call' solution and the optimisation of our digital channels has contributed to a 6.3% year-on-year reduction in calls. In November, we launched our innovative Extra loyalty scheme based on the tenure of our customers. Over one million customers have signed up to the initiative, driving a 9% improvement in customer satisfaction scores year on year to record levels.

### How we do business

At Sky, we understand that our success is based not just on what we do, but how we go about it. Our responsible business strategy is deeply embedded across the group, focused on the areas that we know matter to our customers: providing safe and sustainable products that are accessible for everyone; managing our environmental impacts across our business; strengthening our work with suppliers and keeping our customers' data safe. We're also working hard to champion diversity on screen and throughout our business.

As Europe's leading entertainment and communications company, we also have the opportunity to reach beyond our business to make a positive impact on society. We use our strengths and passion for TV, creativity and sport to help young people unlock their potential.

Through Sky Academy in the UK and Ireland more than 140,000 additional young people have had the opportunity to develop their skills and confidence through our programmes this year. We are applying this successful approach in Germany and Italy, building on the programmes in place through Sky TG24 and the Sky Foundation, both of which focus on supporting young people in our communities.

This year, we also focused on playing a meaningful role in improving diversity in important areas like technology. We launched a bespoke 'Get into Tech' training programme to provide free specialist training for women seeking careers in technology - at Sky or anywhere else. And in the UK we launched a Women in Leadership initiative which is focused on achieving an equal gender balance in our top 400 senior management. We believe this will positively impact our whole organisation in many ways.

### Our people

Our culture and our people are fundamental to Sky's sustained success. Our people want to do their best and be their best, and we want to support them in doing so, creating an inclusive and creative workplace that facilitates the flow of brilliant ideas and creativity. We have invested in training, capability development and our own facilities to support this ambition.



Sky Central

The opening of a new technology centre of excellence at Leeds Dock in the UK has created 400 new jobs in the north of England and marks another milestone in our plans to further expand our capabilities and welcome a new talent pool into the business.

With the opening of the new Sky Central building in the Sky campus, our group headquarters in Osterley, we'll develop new and better ways of working that will transform the Sky experience for our employees. This modern campus will help us continue to cultivate our forward-thinking mindset, to create an even more appealing place to work and better enable us to recruit and retain the very best talent.

### Outlook

I'm extremely proud of the business we have built today. But more than that I am excited about the future, as we continue to create and grasp opportunities to better serve our customers and grow our business.

Jeremy Darroch



Sky Kids app

# Our marketplace, strategy and business model

## Our marketplace

65m

households have yet to take pay TV

22m

customers to sell more products to

£2.6bn

value of transactional home video markets

£10bn

value of TV advertising market across the group

The markets in which we operate are constantly changing and evolving. Consumers are demanding more of the very best content on their terms, be it live on the main television set in the home, or on demand when on the move. However, daily viewing to television remains high, with consumers continually wanting to be entertained on a big screen.

When looking at our business and the markets we are in today, we see a significant growth opportunity ahead. We have 22 million customers who we can offer more products. In addition, around 65 million households have yet to take pay TV in our core markets, giving us substantial headroom to address with our multi-platform and streaming TV services. And we continue to look at other opportunities to grow, which in time might include launching products and services in new markets.

Opportunities in adjacent markets represent significant further areas of growth.

- ▶ Customers are increasingly consuming content in digital formats, with the transactional home video market valued at around £2.6 billion across our markets.
- ▶ We are able to exploit this opportunity through our own transactional video service, Sky Store.
- ▶ In addition, our advertising sales house, Sky Media, operates in the advertising market worth £10 billion across the group.
- ▶ With strong global demand for high-quality content, Sky Vision, our production and distribution arm, goes from strength to strength. Our growing slate of Sky original programming has been popular with broadcasters around the world, with sales made in hundreds of territories.

## Our strategy

Our strategy is to broaden our business; moving into new markets, opening up new customer segments and expanding our range of products and services.

At the heart of our approach are the steps we have taken to build our position as Europe's leading entertainment and communications business. Across all our markets we are ensuring Sky is the home of more of the best content from around the world, with sustained market-leading innovation across multiple platforms, delivered by a trusted brand that offers best in class customer service.

This customer proposition enables us to pursue the significant opportunities for growth in the attractive markets where we operate.

Our strategy is enabling us to deliver sustained broad revenue growth which, together with our focus on operating efficiency, delivers a consistently stronger, more profitable business and long-term shareholder value.

## Our business model

We are focused on delivering the very best content, innovation and service for our customers

### Our strengths

#### Great content

We invest to deliver the best and broadest range of content rights across the portfolio of channels and services we provide to customers, offering something for everyone in the household. We partner with content owners to secure the very best content from around the world, and produce our own original productions.

#### Market-leading innovation

We combine our investment in technologies with our deep understanding of customers to offer a great viewing experience whenever, wherever and however our customers want to watch.

#### Our customer focus

We are a customer-centric organisation, focused on meeting the needs of all our customers in every market. We are able to meet their needs through the strength of our trusted brand, by ensuring that we offer a market-leading TV experience and our commitment to superior customer service.

### Growth opportunities

#### Growing pay TV penetration

Across our markets there is a significant opportunity for growth, with 65 million households yet to take pay TV. We have further developed our segmented customer offers to ensure we are well placed to persuade more customers to join and stay with Sky.

#### Selling more to customers

We focus on broadening out our range of products and services to offer more to existing customers and address more of their needs. We will begin offering customers in the UK our new mobile phone service later this year.

#### Scaling adjacent businesses

We create and pursue opportunities in adjacent sectors such as advertising, transactional services and international programme sales to create and grow additional revenue streams.

## How we create value

### Investing for the long term

We invest over the long term because we want to build a business that is durable. This means ensuring that we create the conditions for sustainable success whilst also delivering results in the short term.

### Driving efficiency

We underpin everything that we do with a rigorous focus on operating efficiency. By ensuring that we have an efficient and agile operating model, we consistently drive down costs to allow us to invest more where customers see greatest value.

### Seeing the Bigger Picture

We are committed to acting responsibly in all that we do. That's because we know that to build a successful business over the long term, how we go about doing business is as important as what we do. We also focus on making a positive impact on society. We call this seeing the Bigger Picture.

### Investing in people

We invest in our people because we recognise that their talent and commitment are critical to our success. We aim to foster a culture which encourages our people to fulfil their potential and to strive for continual improvement in all that they do, enabling us all to achieve great things together.

# Our performance

## Financial key performance indicators

### Adjusted revenue

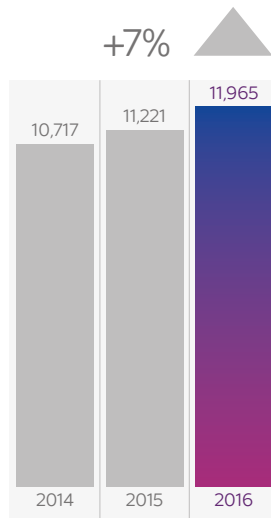
£11,965m

**Description**

Adjusted revenue includes revenue from Subscription, Transactional, Channel and Programme sales, Advertising and Other revenue.\*

**Analysis**

Adjusted revenue is a key measure of how the group is delivering on its strategy to grow the business. In 2016, revenue grew by 7% with good growth in both retail and commercial operations.



### Adjusted EBITDA

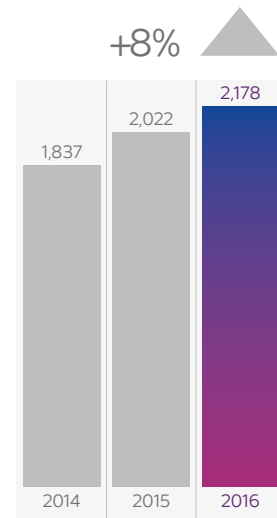
£2,178m

**Description**

Adjusted EBITDA is a measure of the profit generated by the business, excluding Depreciation and Amortisation costs. For the purposes of understanding the underlying performance of the group, the measure also excludes items that may distort comparability.\*

**Analysis**

Adjusted EBITDA is a key measure of profitability. In 2016, adjusted EBITDA increased by 8% on the previous year as group revenue increased by 7%, whilst adjusted operating profit increased by 12%.



### Adjusted operating profit

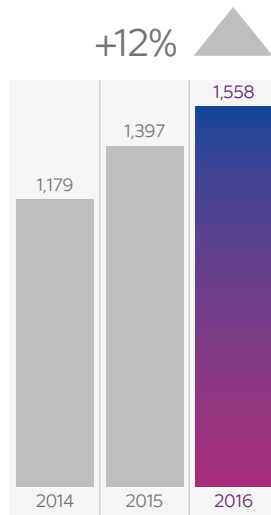
£1,558m

**Description**

Adjusted operating profit is a measure of the profit generated by the business from its revenues and excludes items that may distort comparability from year to year.\*

**Analysis**

Adjusted operating profit is a key measure of the underlying business performance. In 2016, adjusted operating profit increased by 12% on the previous year as the group delivered strong revenue growth, investing in content and innovation and controlling other operating costs.



### Adjusted EPS

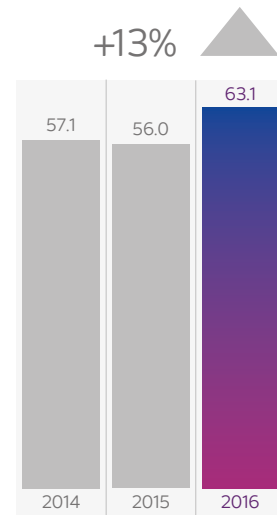
63.1p

**Description**

Adjusted basic EPS is the profit after tax for the year, excluding adjusting items and related tax effects, divided by the weighted average number of ordinary shares.

**Analysis**

Adjusted basic EPS provides a measure of shareholder return that is comparable over time. Adjusted EPS was higher year on year due to the strong growth in adjusted operating profit.

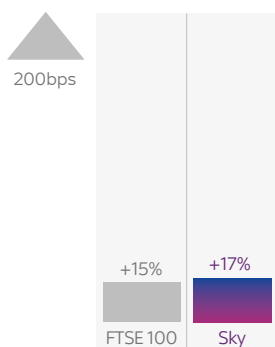


 For a reconciliation of statutory adjusted measures see page 135

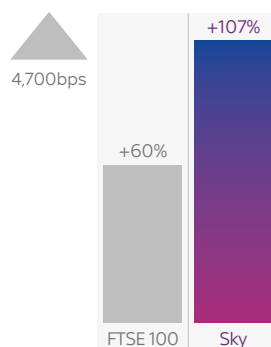
\* Unless otherwise stated, all growth rates and comparative amounts are presented on an adjusted like-for-like basis and on a constant currency basis using current period exchange rates though include 53 weeks of trading in the current year compared with 52 weeks in the previous two years. The financial results of Italy and Germany are translated into sterling at a constant currency rate of £1.34: £1.

## Total shareholder return

### 3-year CAGR



### 10-year CAGR



**Description**

Total shareholder return ('TSR') represents the change in value of a share held for a 12-month period to 30 June, assuming that dividends are reinvested to purchase additional shares at the close price applicable on the ex-dividend date. The value of the share is based on the average share price over the three months prior to 30 June.

**Analysis**

TSR represents a comparable measure of shareholder return over time. Sky shares outperformed the FTSE 100 index over both a medium (three-year) and long-term (ten-year) period illustrating the strong shareholder returns that Sky generates.

## Operational key performance indicators

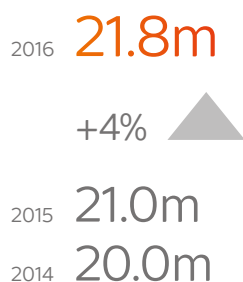
### Retail customers

**Description**

A customer is defined as a subscriber to one of our TV packages or standalone home communications services.

**Analysis**

We added over 808,000 new customers in the year with good growth in every market. We had the second highest customer growth in five years in Germany and the best customer growth in Italy for five years whilst the UK was our largest growing market, adding over 400,000 new customers.



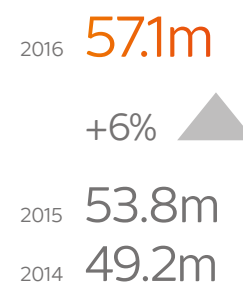
### Total products

**Description**

Total products is defined as the total of all paid-for subscription products taken by our customers across the Sky group. In the UK and Ireland, this includes TV, HD, Multiscreen, Sky Go Extra, Broadband, Telephony and Line Rental. In Italy, this includes TV, Multivision, Sky Online and paying HD. In Germany and Austria, this includes TV, Second Smartcard, Premium HD and Mobile TV.

**Analysis**

We surpassed 57 million products across the group selling an additional 3.3 million products in the year. The strong growth is a result of existing products as well as a growing contribution from new products, such as Sky Q in the UK and Sky Go Extra in Italy.



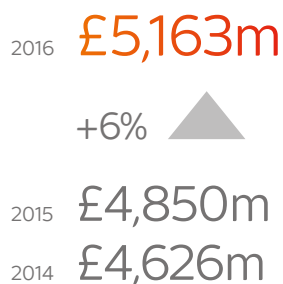
### Programming investment

**Description**

Content investment is the amount spent every year bringing the very best content to our customers. The amount spent on content will include the cost of acquiring the rights to programmes made by others, or commissioning original programmes ourselves and the cost of third-party channels.

**Analysis**

We spent £5.2 billion across the group, up 6%. Despite this increase, we have held programming costs as a percentage of revenue flat at around 43%.



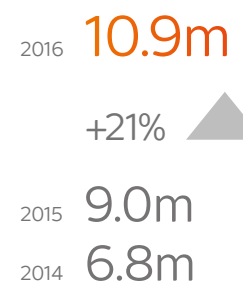
### Connected homes

**Description**

A connected home is one that has connected their Sky box to the internet and therefore has access to Sky's on demand services such as Catch Up TV and Box Sets.

**Analysis**

We added nearly two million connected homes during the year and we now have around 11 million homes connected which is over 50% of all TV customers. We are making really good progress across the group and will increase the penetration further next year.



## Seeing the Bigger Picture

### Social reach

157,700

**Description**

Our social reach number represents the number of young people who have participated in our social initiatives across the group.

Note: Sky Foundation is a separate legal entity; its Board is answerable to the respective regulatory authorities in Germany.

**Analysis**

We continue to collect data from our young people initiatives across the group for an overall social reach. This has grown from 140,100 in 2014/15 to 157,700 in 2015/16. This is made up of 141,900 for Sky Academy in the UK and Ireland, where we have reached 373,400 young people since 2013. In 2015/16 we reached 10,300 for our initiatives in Italy; and 5,400 for Sky Foundation in Germany.



Our full set of independently assured key performance indicators used to measure our sustainability performance can be found at [sky.com/biggerpicture](http://sky.com/biggerpicture)

### Carbon intensity

10.57tCO<sub>2</sub>e/£m

**Description**

Carbon intensity, defined as tonnes of CO<sub>2</sub> equivalent (tCO<sub>2</sub>e) emissions relative to revenue, is one of the key performance indicators we use to measure our environmental performance. Our total gross CO<sub>2</sub>e emissions include all our Scope 1 and Scope 2 location-based Greenhouse Gas emissions across all of our territories. These total 126,498tCO<sub>2</sub>e for 2015/16 compared to 130,026 for 2014/15.

**Analysis**

Our carbon intensity has decreased in 2015/16, as a result of our continued investment in energy efficiency and renewables. We continue to report across all territories and in our online Bigger Picture performance update we have compared our group emissions performance against a science-based benchmark.

# Seeing the Bigger Picture

At Sky we strive to build a business that is durable for the long term. We know that simply being good for Sky is not enough. We must also be good for our customers, our people, our partners, the environment and the communities in which we live and work. This is what we call seeing the Bigger Picture.

## 'A' list

Carbon Disclosure Project

## Top 10

in the Media sector Dow Jones Sustainability Index

## Winner

BITC Award for Inspiring Young Talent

## RE100

committed to procuring 100% renewable energy

### Focused on what matters

Seeing the bigger picture is a core part of our corporate strategy and our Believe in Better ethos, our commitment to constant renewal and improvement in everything that we do. It is part of how we build long-term relationships and earn the trust of our customers, viewers, employees and partners. We focus our strategy and activity across three areas; making a wider contribution to the countries in which we operate, operating responsibly and reaching beyond our business to inspire action and make a positive impact on society.

### Responsible business

At Sky, acting responsibly and being successful commercially go hand in hand. 22 million customers across Europe choose to do business with Sky. They have high expectations of us, trusting us to do the right thing. This means, for example, making sure that Sky is an inclusive employer, ensuring we work hard to keep the information customers share with us safe and secure, developing products that are accessible for everyone including families and our customers with disabilities and strengthening our work with suppliers, including on human rights. This year we have focused on embedding our responsible business strategy across the group.

### Customers

We are proud of what we do to make the Sky experience safe and accessible for everyone, including families and our customers with disabilities. To help make Sky the safest place for families to enjoy content, this year, we announced that Sky Broadband Shield would be automatically switched on for all new customers. We are making the Sky experience more accessible through our content, innovative products and market-leading customer service. We know that the way in which our customers are watching TV is changing and we have an ambitious plan to offer subtitling on at least 80% of Sky on demand content.

We have strong governance in place relating to data protection and continue to invest in industry-leading security methods. This year we've continued to embed our existing approach across the group.

For more information on the Bigger Picture see [www.sky.com/biggerpicture](http://www.sky.com/biggerpicture)

### Responsible sourcing and human rights

We set high social, ethical and environmental standards for suppliers and work in partnership to help them improve.

This year we have focused on implementing our responsible sourcing approach across the group. We have doubled the number of suppliers that we assess and continue to work with suppliers that are deemed high risk and set out action plans for addressing issues that are flagged, as set out in our responsible sourcing policy.

Sky respects the rights of all those that we impact through our activities and business relationships including our own people, the people in our supply chain and our customers. We maintain policies which clearly set out our expectations for upholding human rights. Our annual human rights risk assessment process across our own operations and supply chains helps us identify focus areas. This assessment, along with our Modern Slavery Statement, forms part of our strategy to ensure our commitment to the new legislative requirements as outlined in the Modern Slavery Act.

See our policies at [www.sky.com/biggerpicture](http://www.sky.com/biggerpicture)

### Environment

Sky takes a leadership position on tackling climate change: we focus on reducing our environmental impacts, creating better, more sustainable products and inspiring our customers and suppliers to take action on environmental issues.

In the ten years since Sky became the world's first carbon neutral media company, we have set ourselves ambitious long-term goals and made significant progress through reducing our waste and energy use and by investing in on-site renewables and more energy efficient properties.

As a group we began reporting on our environmental performance in 2015; since then we have reduced our carbon intensity from 11.52tCO<sub>2</sub>e (2015) to 10.57tCO<sub>2</sub>e in 2016. In the UK and Ireland, we have been reporting on our environmental performance since 2008. Here we have reduced our emissions (tCO<sub>2</sub>e) relative to revenue by 44% since our 2008/09 baseline, making significant progress toward our target to halve emissions by 2020.

We continue to develop better, more sustainable products, using less materials within a smaller box. For example, our new Sky Q box is over 50% smaller than the Sky+HD model. This also helps to reduce transport emissions and the amount

### Reducing our carbon emissions



The graph shows the carbon intensity since the creation of the enlarged Sky group. We have decreased our emissions by 8% since last year as a result of our continued investment in energy efficiency and renewables. In addition, we have signed up to RE100, committing to expand our procurement of renewable energy across the group.






**Sky Rainforest Rescue**

of packaging. Across the group we also ensure that all of the products returned to us are reused or recycled. Our new ownership model for Sky Q means that more products than ever before come back to us, helping to close the loop.

In September 2015, we celebrated the completion of Sky Rainforest Rescue, our six-year partnership with WWF through which we helped to raise over £9 million, save one billion trees in the Amazon and raise awareness of deforestation among 7.3 million people. In the Spring we supported WWF's Earth Hour, reaching out to more than 24 million people across Europe through the first ever Earth Hour TV advert and a social media campaign encouraging people to turn off their lights.


 For more on our carbon emissions see tables on page 66

**Inclusion**

We want to make sure that Sky is an inclusive employer and that our business reflects the societies in which it operates. Sky promotes a culture of opportunity for all – decisions about people's employment, development, promotion, pay and benefits are based on ability, qualifications and performance.

The Company delivers some of the most diverse content and services available to a wide range of consumers and we know that we will be better placed for success if we have a balanced and diverse workforce.

Over the past year, we have had a particular focus on Women in Leadership and we are proud that in the UK and Ireland, we have increased the proportion of women in leadership roles by 4% to 38%, and the proportion of women in our most senior leadership team by 3% to 30%. We plan to roll out similar initiatives across all our territories with a view to consolidating the progress we have made in the UK and Ireland across the whole group.

 For more on the diversity of our workforce see page 65

**Inspiring action**

We use our position as Europe's leading entertainment company to make a positive impact on society and we've chosen to focus on supporting young people, working alongside schools and youth organisations to help them unlock their potential. Given the power of our brand, it is an area where we believe we can make a real difference. This year, more than 157,700 young people have taken part in opportunities across the Sky group, including; Sky Academy in the UK and Ireland, Sky Foundation in Germany and Sky TG24 for Schools in Italy.

Sky Academy uses the power of TV, creativity and sport to unlock the potential in young people. Since the launch of our Sky Academy in the UK and Ireland in 2013, more than 370,000 young people have taken part. Through our initiatives; Sky Sports Living for Sport, Sky Academy Skills Studios, Sky Academy Careers Lab, Sky Academy Starting Out, and Sky Academy Scholarships, we are not only making a difference to young people, but also to the future of our business and, we believe, to the media and technology sector as a whole.

In Italy, we are focusing on supporting young people through art, TV and sport. This year more than 10,300 young people have taken part in opportunities including Sky TG24 for Schools, which helps young people build skills including communication, teamwork and media literacy. Sky Foundation in Germany supports young people, particularly those who are disabled or from disadvantaged backgrounds, to develop their skills and lead an active life. More than 5,400 young people took part in Sky Foundation opportunities across Germany throughout the year.

**157k**  
young people supported across the group in 2016

**38%**  
of our Top 400 employees in the UK and Ireland are women

**10.57**  
tCO<sub>2</sub>e, carbon intensity in 2016 (2015: 11.52)

**10**  
years of being carbon neutral

**Top 8**  
sustainable business in Newsweek's Green Rankings



Sky Academy Skills Studios



# Operational and Financial review

**Operational review**

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## UK and Ireland

Sky delivered another strong year of growth in the UK and Ireland. Our investments in world-class programmes and market-leading innovation continue to attract both new customers to Sky, as well as giving existing customers more reasons to stay with us. This enabled us to pass £8 billion in revenue for the first time.



Lucky Man

Our strategy of segmenting the market, ensuring we have the very best range of products to suit the needs of different customers, helped attract 445,000 new customers. This took our total retail customer base to over 12.4 million.

At the same time, we added 2.3 million new products, taking us past the major milestone of 40 million products in UK and Irish households. This performance reflects strong demand for both our TV and home communications products and services.

### Innovation

It's been a big year for new product launches. In February we launched our groundbreaking new product, Sky Q. Customers can enjoy a whole range of fantastic features which make TV viewing seamless around and outside the home. These include the ability to pause viewing on one TV screen and pick up in another room, as well as saving recordings onto a tablet to watch anywhere. And it will keep getting better including the launch of voice search. Soon we will launch our new Sky Q Ultra HD service giving customers the widest range of ultra HD content in the market.

We've continued to reach more and more customers with our flexible, no contract streaming service, NOW TV. The launch of the Sky Sports monthly pass in the Summer has led to a 42% increase in sports passes sold year on year. In June we extended our portfolio further with the launch of a new NOW TV Kids pass, offering access to top kids programmes for just £2.99 a month. We have now taken the very exciting step of launching the NOW TV Combo, the UK's first ever contract-free triple play bundle, giving customers contract-free TV, broadband and call packages. The unique NOW TV Combo includes a brand new NOW TV Smart Box, giving customers seamless access to over 60 free-to-air channels alongside the TV that's right for them.

Our mobile platforms provide customers with engaging and relevant ways to enjoy our programmes wherever and whenever they choose. Sky Go had its biggest update since launch, making the user interface more engaging and intuitive using many learnings from Sky in Germany. We've also launched a fantastic new Sky Kids app, giving kids a choice of over 4,500 of their favourite episodes on demand in a fun app designed especially for them.

### Content

We have had an excellent year on screen. Our strategy of acquiring the best programmes from around the world, complemented with more of our own original content, is delivering the entertainment customers want.

**In entertainment**, we launched our critically acclaimed crime drama *The Last Panthers* simultaneously across all markets in November. In the UK and Ireland, Stan Lee's *Lucky Man* became our most watched drama series ever on Sky 1 with an average cumulative audience of almost two million. We also saw the return of successful shows including *The Tunnel*, *Stella*, *Penny Dreadful* and *Mid-Morning Matters*, demonstrating the growing maturity of our original productions.

Our customers benefit from our long-term partnerships with some of the world's leading content producers. The sixth series of HBO's *Game of Thrones* broke all records to become the most watched Sky entertainment programme ever in the UK and Ireland. *Billions*, the new drama from our exclusive partner Showtime, also broke records. Within the first 24 hours alone, *Billions* was downloaded 500,000 times, a record for any show on Sky Box Sets.

The Open





**In movies**, we achieved record viewing numbers, with the highest ever weekly audience to Sky Movies over Christmas. On demand downloads surpassed 290 million as customers choose from our high-quality library of over 1,000 of the latest blockbusters and classic films.

At the beginning of July, Sky Movies was relaunched as Sky Cinema in the UK and Ireland in line with all our movie channels across Europe. The improved service gives customers even more of the biggest and best movies closer to cinema release than any other subscription service. Sky Cinema customers can enjoy a new movie premiere every day, an even bigger library of the most popular films on demand, more pop up channels, as well as better HD picture and sound quality.

**In sport**, we drew record audiences right across the portfolio, demonstrating the strength and breadth of our offer. For the third season in a row, Sky Sports showed 49 of the top 50 most watched Premier League matches. Taken together this means that of the 200 biggest and most watched Premier League matches over the past three seasons, 97% have been exclusively live on Sky Sports. In golf, the British Masters was the most watched European Tour event of the season, and the rugby Super League Grand Final achieved its highest UK audience for five years.

At the same time, we secured a number of important long-term rights agreements, ensuring we remain the home of the very best sport for many years to come. From 2019, Sky Sports in the UK and Ireland will be the exclusive home of Formula 1, providing customers with live coverage of every Grand Prix until 2024. We also agreed deals with the ICC for all men's and women's cricket world cups to 2023, La Liga, The Open, championship golf and all international Rugby Union from the southern hemisphere.

Furthermore, we are giving millions of viewers in the UK and Ireland access to selected moments from some of the world's biggest sporting events following the launch of Sky Sports Mix in August. Available at no extra cost to all Sky TV customers, the channel will help them get even more value from their subscription.

## Customer

We want our customers to have the very best TV and communications experience; we are therefore focused on delivering excellent customer service. We are proud that this year Sky once again led the industry, coming in at the top of Ofcom's regular customer satisfaction reports. We're particularly pleased that our engineers earned their highest ever level of customer satisfaction scores this year.

Customers increasingly want to be able to interact with us online. With our Digital First programme we now receive over four million visits per week to our online help and account management sites. We are also focused on resolving customer issues the first time we are contacted. This approach has led to a 10% reduction in the number of calls year on year. Since 2010 we have halved the amount of calls we receive from customers, during a period when we have doubled the number of products our customers are using. This is great for customers but also means we have more to invest in great shows and further innovation.

## Bigger Picture

As part of our commitment to responsible business we're minimising our environmental impacts and have achieved a 44% reduction in carbon emissions across the UK. Throughout the year we've been continuing the redevelopment of our Sky campus in Osterley with international industry standard, BREEAM Excellent.

This year over 141,000 young people took part in Sky Academy initiatives. Our Sky Academy Skills Studios invited young people to Sky every weekday to create their own news reports with over 25,000 young people taking part throughout the year. Our Sky Sports Living for Sport initiative now has a team of over 135 athlete mentors, inspiring students in a third of secondary schools. We're also immensely proud of our 11 Sky Sports and five Sky Arts Scholars.

## Germany and Austria

Sky has had a record year in Germany and Austria, attracting more customers and seeing even more demand for our products in what is Europe's fastest-growing pay TV market. This has led to a strong financial performance, with our first ever full year profit in this territory.



Sky Sport News HD

### Babylon Berlin



During the 12-month period we added over 340,000 more customers with the total base now 4.6 million. Total paid-for products reached eight million with almost one million products added during the year, driven by strong demand for our HD channels.

This strong operating performance reflects the continued progress we are making as we deliver our growth strategy, focused on broadening our content offer beyond our heartland of sports and movies and improving our customer experience across platforms. By sharing capabilities and resources across the group and implementing successful initiatives from other markets, we are pursuing the significant headroom for growth in this market. Customers are responding positively, with strong take up of the new Entertainment package we launched in November and growing numbers of connected customers who are enjoying our rich on demand library.

### Innovation

We are investing to enable customers in Germany and Austria access to a broader range of content whenever and however they want to watch.

More than one million customers have now connected their boxes to the internet, giving them access to Sky On Demand including the hugely popular Sky Box Sets, which is drawing over 800,000 views per week. This growth in connected homes, up from just 250,000 one year ago, means that one in four Sky households are now connected. This has driven a rapid growth in on demand downloads, to 132 million across the year, as customers benefit from this richer entertainment experience.

Our market-leading online TV service, Sky Go, also saw a record number of users across the year, led by major series like *Game of Thrones* and the fourth series of *House of Cards*, with 50% of viewers choosing to access the show via this mobile platform. In June, we also launched the Sky Kids app – following its successful roll out in the UK and Ireland – allowing TV customers to access over 2,000 episodes of their favourite kids shows on Android and iOS tablets.

At the same time, we are broadening our distribution with our streaming service, Sky Online, offering customers flexible, contract-free access to our content through a range of connected devices. In the year we expanded the availability of Sky Online to over 200 devices, including LG and Samsung smart TVs and Chromecast.

### Content

Our broader content offering is enabling us to attract more customers who had not previously considered Sky.

**In entertainment**, we introduced a new Entertainment Pack offering live and on demand access to channels including Fox, Syfy, RTL Crime, TNT Serie and Sky Atlantic – all in HD – as well as Sky Box Sets. Supported with a strong marketing campaign, we have seen positive early success with 50% of customers joining on this new pack since its launch.

We relaunched our on demand offering, rebranding Sky Anytime to Sky On Demand. The new service has a dedicated Sky Box Sets section that includes hit series such as *The Walking Dead*, *The Leftovers* and *The Sopranos*. In addition, Sky Arts HD launched in July with Richard Wagner's iconic Ring Cycle broadcast live from the world renowned Bayreuth Festival.

The growing scale and ambition of our own original TV programmes alongside the continued success of our acquired content is a major strength of our enhanced entertainment offer. Production is well underway on our first major original commission in Germany, *Babylon Berlin*, due to air in 2017 and production is set to start in the coming year on a series adaptation of *Das Boot*, the Oscar nominated film by Wolfgang Peterson.

Our Sky Atlantic channel went from strength to strength with Season 6 of HBO's *Game of Thrones* generating record audiences, with viewing up 31% versus Season 5.

**In movies**, our pop up channels Sky 007 HD and Sky Disney Prinzessinnen HD were hugely successful, with the latter reaching millions of customers in just two weeks from launch, becoming the best special programming format in the company's history.

**In sport**, we extended our leadership position as the home of sport in Germany and Austria by securing the Bundesliga and Bundesliga 2 contract through to 2021. Sky will show 93% of all live games under the new contract which starts in 2017. We also extended our contract with DFB-Pokal for another three years, as well as exclusive live rights to key golf tournaments including the US PGA Tour and The Open. These complement our other key rights such as Formula 1, UEFA Champions League and ATP tennis and means we have certainty on our proposition and excellent visibility on sports costs for the next five years.

During the year, Sky Sport News HD recorded its highest ever level of viewers, reaching an average of over 600,000 viewers per day. Viewing to the Bundesliga also reached record levels, with Borussia Dortmund versus Bayern Munich in March delivering an all-time record audience of over 3.5 million viewers.

### Customer

We have continued to invest and improve our service to customers, with satisfaction scores reaching all-time highs this year. We have been focusing on improvements across our contact centre estate, resulting in a significant decrease in average customer handling times, at the same time as reducing calls by 16% year on year driven by improved product reliability.

As we seek to continually improve our service we have established a Customer Advisory Council, consisting of 20 retail customers from Germany and Austria across all age groups. We will work closely with these customers on a range of topics, from products and innovations through to service.

### Bigger Picture

Sky's Austrian headquarters are now the first building in the country to be awarded the international LEED (Leadership in Energy and Environmental Design) Gold Standard. These offices and our TV studios run solely on renewable energy.

More than 5,000 young people took part in opportunities through Sky Foundation, joining year round sports programmes including swimming, football, basketball and climbing with partners such as street football league, Bunkkickgut. Sky Germany employees continue to support Sky Foundation activity through volunteering and fundraising.

4.6m  
customers

8.0m  
products

12%  
revenue growth



Sky Box Sets

Sky in Italy had a positive 12 months, with our customer base returning to growth for the first time in five years. Customers responded to the investments we made, providing them with the very best TV experience, while reaching new market segments with our choice of platforms. This, coupled with strong growth in advertising revenues, resulted in 2% growth in revenue year on year.

We added 17,000 retail customers in the year, taking our total customer base to 4.7 million. Our improved content and product proposition helped to drive product growth of 26,000 to a total of 8.6 million.

## Innovation

We are rolling out our connected home strategy at pace in Italy, with almost 50% of all customers' boxes connected to the internet. The launch of Sky Box Sets in March completed the full suite of on demand services, leading to a 44% increase in total downloads year on year, driven by major shows such as *Gomorra*, *Game of Thrones*, and *House of Cards*.

In June, we announced the rebranding of Sky Online to NOW TV, providing customers with an even broader and more flexible offer, along with a brand-new content-based interface to further enhance the viewing experience.

Customers in Italy have an exciting year to look forward to. Plans are underway for the launch of Sky Go Extra in the coming months, along with the Sky Kids app, following its successful launch in the UK, Ireland, Germany and Austria. In addition, we will roll out our targeted advertising service, Sky AdSmart, in the coming months, extending our innovation to the service we offer our commercial partners.

## Content

We are continuing to strengthen our TV offering in Italy as we invest in giving our customers the best content across all of our genres.

**In entertainment**, the huge popularity of some of our established shows continues to drive on-screen success. The final of the ninth series of *X Factor* achieved record audiences, up over 30% on the previous year and the latest series of *MasterChef Italia* became the most watched programme on Sky Uno.

We're increasing our investment in high-quality original shows. The second series of crime drama *Gomorra* premiered simultaneously across all our markets in May, drawing a record 2.3 million average viewers to each episode and becoming the most-viewed series ever on Sky Italia. The first series of *Gomorra* has now been sold in over 130 countries including



MotoGP

the US and broke records in France as the most successful non-French European debut on Canal+. Earlier this year we announced the commissioning of a third and fourth series, demonstrating the growing maturity of our portfolio.

Sky original TV programmes are reaching scale, enabling us to offer differentiated content in terms of range, quality and exclusivity. This year will see the launch across all our markets of *The Young Pope*, a major new co-production with HBO and Canal+, starring Jude Law. Filmed in Italy by Academy Award-winner, Paolo Sorrentino, *The Young Pope* is a great example of the world-class talent we're working with across the industry as we build our reputation as a content creator and sell our programmes around the world.

**In arts**, we have opened our new Sky Arts Production Hub, based in Milan, with its latest multi-country project, *Master of Photography*, airing in July 2016.

2016 also saw the expansion of our free-to-air offering, with the addition, following the acquisition of 'Nuova Società Televisiva Italiana S.r.l.' by Sky Italia Group, of a generalist channel in the important LCN position 8 ('TV8') and we're pleased with the initial performance with share of total viewing growing steadily and driving a strong growth in advertising revenue.

**In sport**, we secured the UEFA Euro 2016 rights and all 32 games of the Copa America Centenario tournament this summer. In July, the UEFA Euro 2016 match between Italy and Germany hit an all-time record viewing with over three million average viewers. These rights also contributed to the strengthening of our broader football offering, which includes Serie A, Serie B, Europa League and English Premier League matches.

Our coverage of this summer's international football tournaments round off a year of exceptional sport on Sky Italia. In motorsport, we again saw record-breaking performances on screen as the MotoGP 2015 season finale set an all-time record with over ten million viewers and a 48% share of total viewing. Formula 1 also continued to grow its ratings, with viewing to the latest season up 12% year on year.





4.7m  
customers

8.6m  
products

2%  
revenue growth

MasterChef Italia

### Customer

Across Sky we continue to invest in supporting our market-leading content and innovation with the best possible service for all our customers.

In November, we launched our innovative Extra loyalty scheme in Italy, offering rewards to customers based on their tenure, and we've seen a fantastic response. Since launch over one million customers have signed up to the scheme, driving a 10% year-on-year improvement in customer satisfaction scores to record levels.

We're also benefiting from sharing best practice across the group. By adopting a similar model to that in the UK, we have improved sales call conversion by 10 percentage points year on year. We've also optimised our digital channels, with downloads of our self-service mobile app surpassing 2.7 million downloads by the end of June.



Master of Photography

### Bigger Picture

The group's responsible business approach has been adopted in Italy too, where as part of our effort to reduce our environmental impact we are investing in on-site renewables including a combined cooling, heating and power generation system. This highly efficient way of producing electricity and heat simultaneously, will go online in the coming year.

We have been working towards the launch of Sky Academy in Italy, applying learnings from the group and building a creative studio in Milan. Opening by the end of 2016, this initiative will be open to thousands of young people each year.



UEFA Euro 2016

# Financial review



**Andrew Griffith**  
Group Chief Operating Officer and Chief Financial Officer

We had another strong year with revenue growth of 7% and a 12% increase in operating profit. Our shareholders are benefiting from strong cash returns with a proposed further 2% increase in the dividend.

## Group financial performance

Unless otherwise stated, all numbers are presented on an adjusted basis for the full year ended 30 June 2016. For comparative amounts in the prior year, numbers are presented on an adjusted like-for-like basis (ie. including a full 12 months of Italy and Germany) and are translated at a constant currency rate of €1.34:£1. The current year results include 53 weeks of trading compared with 52 weeks in the prior year. The Group's basis of preparation of maintaining a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year, is discussed further in note 1 to the consolidated financial statements.

Adjusted results exclude items which may distort comparability in order to provide a measure of underlying performance. Such items arise from events or transactions that fall within the ordinary activities of the Group but which management believes should be separately identified to help explain underlying performance. Further details of the adjusting items impacting the Group can be found in note 10 to the consolidated financial statements. A reconciliation of the Group's statutory and adjusted consolidated income statement can be found in the 'Non-GAAP' measures section of the consolidated financial statements.

Our financial performance on a territory-by-territory basis is disclosed in note 2 to the consolidated financial statements, and the result of the UK and Ireland segment represents the pre-existing Sky business prior to the acquisitions of businesses in Germany and Italy.

### Revenue

Group revenues grew by 7% to £11,965 million (2015: £11,221 million) with growth in each territory. UK and Ireland revenue was up 7% to £8,371 million (2015: £7,820 million), revenue in Germany grew 12% to £1,512 million (2015: £1,352 million), whilst Italy grew by 2% to £2,082 million (2015: £2,049 million), reversing two consecutive years of decline.

We saw continued strong growth in subscription revenue, our largest category, which was up 6% across the Group. Alongside this, we saw excellent – and even faster – rates of growth across all other revenue streams with transactional revenues up 15%, programming and channel sales up 17%, and advertising revenues up 9%.

An analysis of revenue by category for each territory for the current and prior year is provided in note 2 to the consolidated financial statements.

## Costs

Total costs grew by 6%, below the rate of revenue growth.

We continue to invest in programming which was up 6% as we increased investment in each territory in original content and box sets. Savings created by not renewing the Champions League in the UK and Italy, along with the absence of the biennial Ryder Cup in each territory were partially offset by higher Bundesliga costs. Our investment in entertainment was more weighted towards the final quarter of the year, with the return of key shows such as *The Tunnel* and *The Blacklist* alongside the launch of *Billions* on Sky Atlantic.

Direct network costs, which is a UK cost category, increased by 12%, below the rate of home communications revenue growth, as we saw continued strong growth in customers and increased fibre penetration over the past 12 months, whilst sales, general and administrative costs increased by just 4%.

An analysis of costs by category for each territory for the current and prior year is provided in note 2 to the consolidated financial statements.

## Profit and earnings

Operating profit grew strongly, up 12% to a record annual profit of £1,558 million (2015: £1,397 million) as we combined excellent revenue growth with careful choices within our cost base whilst continuing to invest in programming. This has driven a 60 basis point expansion in our operating margin.

Adjusting for depreciation and amortisation of £620 million, Group EBITDA was up 8% to £2,178 million (2015: £2,022 million).

After a tax charge of £269 million (2015: £251 million) at an effective tax rate of 20% (2015: 21%), profit after tax for the year increased by 14% to £1,077 million (2015: £945 million), resulting in adjusted earnings per share of 63.1 pence (2015: 56.0 pence). The weighted average number of shares, excluding those held by the Employee Share Ownership Plan ('ESOP') for the settlement of employee share awards, was 1,707 million (2015: 1,690 million). The closing number of shares excluding the ESOP shares at 30 June 2016 was 1,708 million (2015: 1,704 million).

## Statutory revenue, profit and adjusting items

Statutory revenue for the year of £11,965 million (2015: £9,989 million) increased 20% due to the full year consolidation of Germany and Italy and the factors discussed above.

Statutory profit from continuing operations for the prior year of £1,332 million included a total £791 million one-off gain on the disposals of our shareholding in ITV (£492 million) and our stake in the National Geographic Channel (£299 million). Statutory profit for the current year of £663 million is after the deduction of operating expenses of £581 million (2015: £396 million) principally comprising advisory and transaction fees incurred on the purchase of the remaining minority shareholdings in Sky Deutschland; the costs of integrating both Sky Italia and Sky Deutschland in the enlarged Group; corporate efficiency and restructuring programmes in each territory; and the ongoing amortisation of acquired intangible assets.

## Group cash flow and financial position

Net debt as at 30 June 2016 was £6.2 billion (30 June 2015: £5.1 billion). Non-cash movements accounted for £918 million of this increase, predominantly due to the retranslation of Euro denominated debt into sterling at a less favourable 30 June 2016 exchange rate of €1.20 (2015: €1.41). This increase in net debt reverses a reduction in net debt enjoyed in the period from the completion date of the Sky Europe transaction to 30 June 2015, where foreign exchange benefited net debt by £446 million. Underlying net debt increased by only £244 million, the majority of which related to the one time £170 million for the completion of the Sky Deutschland squeeze-out.

On the basis of average exchange rates (as used in the Group's banking covenant) our net debt to EBITDA ratio reduced to 2.4 times (2015: 2.6 times).

The Group reaffirms its target to reduce leverage to no more than two times net debt/EBITDA over the medium term.

**£1.6bn**  
adjusted  
operating profit

**33.5p**  
dividend

**63.1p**  
adjusted basic EPS



Bundesliga



The Tunnel: Sabotage

The Group continues to maintain a strong financial position and has ample headroom to its financial covenants, including excellent liquidity with cash of £2.1 billion as at 30 June 2016, and access to a £1 billion Revolving Credit Facility which remained wholly undrawn throughout the period, and which is committed until November 2021. The Group has a well spread portfolio of debt maturities, with an average maturity of seven years, and no debt maturing prior to October 2017.

#### Balance Sheet

During the year, total assets increased by £2,052 million to £17,410 million at 30 June 2016.

Non-current assets increased by £1,909 million to £12,708 million, primarily due to an increase of £553 million in goodwill due to foreign exchange movements on Euro-denominated balances, an increase of £569 million in derivative financial assets largely due to the movement in foreign exchange rates and an increase of £673 million in intangible assets and property, plant and equipment primarily due to continued capital investment.

Current assets increased by £143 million to £4,702 million at 30 June 2016, principally due to a £759 million increase in cash and cash equivalents and a £253 million increase in trade and other receivables, offset by a £1,100 million decrease in short-term deposits.

	As at 1 July 2015 £m	Cash movements £m	Non-cash movements £m	As at 30 June 2016 £m
Current borrowings	494	(514)	51	31
Non-current borrowings	7,418	358	1,125	8,901
Borrowings-related derivative financial instruments	(378)	59	(258)	(577)
<b>Gross debt</b>	<b>7,534</b>	<b>(97)</b>	<b>918</b>	<b>8,355</b>
Cash and cash equivalents	(1,378)	(759)	-	(2,137)
Short-term deposits	(1,100)	1,100	-	-
<b>Net debt</b>	<b>5,056</b>	<b>244</b>	<b>918</b>	<b>6,218</b>

Total liabilities increased by £1,835 million to £13,969 million at 30 June 2016.

Current liabilities increased by £122 million to £4,326 million, primarily due to a £472 million increase in trade and other payables as a result of the timing of the year end close, which was largely offset by a decrease of £463 million in current borrowings due to the repayment of a bond in the year.

Non-current liabilities increased by £1,713 million to £9,643 million, principally due to a £1,483 million increase in the Group's non-current borrowings following a bond issuance in the year and non-cash movements on retranslation of Euro-denominated debt into sterling. The net balance sheet derivative position has increased predominantly as a result of movements in the US dollar and euro exchange rates.

### Distributions to Shareholders

The Directors' proposed final dividend of 20.95 pence per share takes the total dividend payable in respect of the financial year to 33.50 pence per share, an increase of 2% and the 12th successive year of growth. Over the past five years our dividend has grown by a total of 44%, with ordinary shareholders having received £2.6 billion in aggregate, the equivalent of 154 pence per share.

It remains our policy to maintain a progressive dividend policy, 'looking through' occasional periods of earnings dilution, including the 2016/17 financial year in which we expect to grow our dividend at a similar rate whilst our UK business absorbs the one-time step up in cost in the first year of the new three-year Premier League contract.

The ex-dividend date will be 6 October 2016 and, subject to shareholder approval at the 2016 Annual General Meeting, the final dividend of 20.95 pence will be paid on 28 October 2016 to shareholders on the register at the close of business on 7 October 2016.



The Blacklist



Sky TG24 HD

# 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 38–48

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 formally to the Audit Committee twice a year.

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

There is, in addition to the twice-yearly review, 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 the recent UK referendum has caused 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><b>Market and competition:</b></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.</p> <p>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><b>Regulatory breach and change:</b></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"> <li>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;</li> </ul>	<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"> <li>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;</li> <li>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;</li> </ul>

Description of risk	Mitigation
<ul style="list-style-type: none"> <li>• 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</li> <li>• 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.</li> </ul> <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"> <li>• 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.</li> </ul> <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><b>Customer service:</b></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><b>Technology and business interruption:</b></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><b>Suppliers:</b></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><b>Financial:</b></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, including as a result of the recent UK referendum, 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. A review of the Group's Treasury Policy in the light of the result in the recent UK referendum confirmed its continuing appropriateness.</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 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 the regulating tax authorities, primarily HM Revenue &amp; Customs. The Group aims to deal with taxation issues, wherever possible, as they arise in order to avoid unnecessary disputes.</p>
<p><b>Security:</b></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><b>Projects:</b></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	Mitigation
<p><b>Intellectual property protection:</b></p> <p>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.</p>	<p>We maintain an ongoing programme to support appropriate protections of our intellectual property and other rights. This includes, for example, the use of automated online monitoring tools, the implementation of on-screen imprinting of content together with an active programme to protect our intellectual property rights.</p>
<p><b>People:</b></p> <p>People at Sky are critical to the Group's ability to meet the needs of its customers and achieve its goals as a business.</p> <p>Failure to attract or retain suitable employees across the business could limit the Group's ability to deliver its business plan commitments.</p>	<p>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.</p> <p>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.</p> <p>Further details on our people is set out in the Employees section of the Directors' Report on pages 65.</p>

## Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, the Directors have assessed the viability of the Group over the three years to 30 June 2019. The assessment has taken account of the current position of the Group and the potential impact of the principal risks outlined above.

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 Group 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 Group. The financial impact was tested taking account of currency risk and the likely effectiveness of the potential mitigations that management reasonably believes would be available to the Group over this period, enabling the net financial effect of each scenario 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 Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 30 June 2019.

In assessing the prospects of the Group, 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 32 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 and above in financial risks.

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 28 on page 117, its approved future capital expenditure plans 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.

# Regulatory matters

Below is an overview of the ongoing investigations and reviews of regulatory and competition matters involving the Group.

## European Commission investigation

On 13 January 2014, the European Commission (the 'EC') opened a formal antitrust investigation into cross-border provision of pay TV services in the European Union. The EC is examining certain provisions relating to territorial protection in licence agreements between major US film studios (Twentieth Century Fox, Warner Bros., Sony Pictures, NBC Universal, Paramount and Disney) and key European pay TV broadcasters (Sky UK, Canal Plus, Sky Italia, Sky Deutschland and DTS, operating under the Canal Plus brand in Spain). On 23 July 2015, the EC adopted a Statement of Objections ('SO'), setting out its preliminary finding that there has been an infringement of EU Competition law involving Sky UK. Sky UK and the Studios, have responded to the EC's case, both in written responses (October 2015) and at an oral hearing (January 2016). In addition, Paramount has proposed commitments which the EC accepted in July 2016. The EC has not yet reached its final views and the Group is not yet able to determine the outcome of the investigation or its financial impact. However, should the outcome be adverse to Sky UK, this may have a significant effect on the financial position or profitability of the Group.

## Wholesale must-offer ('WMO') obligations

On 31 March 2010, Ofcom published its decision to impose wholesale must-offer obligations on the Group (the 'WMO Obligations') for the channels Sky Sports 1, Sky Sports 2, Sky Sports 1 HD and Sky Sports 2 HD (the 'Affected Channels'). The WMO Obligations required Sky UK, amongst other things, to offer the Affected Channels on a wholesale basis to third parties which satisfied various minimum qualifying criteria.

On 8 August 2012, the Competition Appeal Tribunal ('CAT') handed down its judgment on Sky UK's appeal against Ofcom's decision to impose the WMO Obligations (the 'Pay TV Judgment'). The CAT found that 'Ofcom's core competition concern is unfounded' (Ofcom had found that Sky UK deliberately withheld wholesale supply of its premium channels) and that accordingly Sky UK's appeal must be allowed.

BT appealed the Pay TV Judgment to the Court of Appeal. On 17 February 2014, the Court of Appeal allowed BT's appeal, finding that Ofcom's decision contained a further competition concern in relation to Sky UK's rate card prices and discounts to those prices, and that the CAT should have considered that concern. It therefore remitted that issue to the CAT for further consideration.

On 19 December 2014, Ofcom began a review to determine whether the WMO Obligations remained appropriate. On 19 November 2015, Ofcom announced its decision to remove the WMO Obligations. In its statement concluding its review of the WMO Obligations, Ofcom stated that it does not consider it appropriate to impose regulation in relation to the supply of channels containing key sports content at this time. In Ofcom's view, whilst there may be concerns in principle given Sky's strong position in the market,

in practice the evidence shows that Sky is supplying its sports channels widely and Ofcom has not seen evidence to show that the terms of this supply amount to practices prejudicial to fair and effective competition which warrant the imposition of regulation. Ofcom therefore decided that it was appropriate to remove the WMO condition from Sky's broadcast licences, and proceeded to do so on 27 November 2015. Ofcom has stated that it will continue to monitor Sky's practices to determine whether regulation might be appropriate in the future.

On 18 December 2015, the appeals remitted to the CAT relating to Ofcom's 2010 decision to impose the WMO Obligations were withdrawn by order of the CAT on agreement between the parties.

On 19 January 2016, BT filed an appeal against Ofcom's decision to remove the WMO condition with the CAT. On 25 February 2016, Sky was granted permission to intervene in support of Ofcom's defence of its decision, and on 10 June 2016, Sky filed and served its Statement of Intervention. The hearing is currently listed for October 2016. The Group is unable to determine whether, and to what extent, the appeal will be successful or its financial impact. However, should the outcome of these processes be adverse to the Group, this may have a significant effect on the financial position or profitability of the Group.

## Ofcom Competition Act Investigation into wholesale supply of Sky Sports 1 and 2

Following receipt of a complaint from BT, on 14 June 2013, Ofcom opened an investigation into whether Sky UK had abused a dominant position contrary to Chapter II of the Competition Act 1998 and/or Article 102 of the Treaty on the Functioning of the EU. The complaint alleged that Sky UK was making wholesale supply of Sky Sports 1 and 2 to BT for its YouView service conditional on BT wholesaling BT Sports channels to Sky UK for retail on Sky UK's satellite platform, and that constituted an abuse of dominance.

Ofcom decided to close the investigation on 16 February 2016 for reasons of administrative priority.

## Ofcom Competition Act investigation into Virgin Media complaint to Ofcom concerning the 'collective' selling of live UK television rights by the Premier League

In September 2014, Ofcom received a complaint from Virgin Media ('VM') alleging that the arrangements for the 'collective' selling of live UK television rights by the Premier League ('PL') for matches played by its member clubs are in breach of competition law. On 18 November 2014, Ofcom opened an investigation under section 25 of the Competition Act 1998 into how the PL sells live UK audio-visual media rights for PL football matches.

Ofcom's investigation is continuing. The Group is currently unable to determine whether, or to what extent, VM's complaint will be upheld by Ofcom and it is not possible for the Group to conclude on the financial impact of the outcome at this stage.

## Ofcom investigation into Sky's compliance with rules about cancellation and termination arrangements

On 6 August 2015, Ofcom opened an investigation on whether there are reasonable grounds for believing that Sky has failed to comply with its obligations under the Ofcom General Conditions of Entitlement which require communication providers to ensure that their conditions or procedures for contract termination do not act as a disincentive for end-users changing their communication providers. Ofcom's investigation is continuing. The Group is currently unable to determine whether, or to what extent, Ofcom will find that Sky has failed to comply with its obligations and it is not possible for the Group to conclude on the financial impact of the outcome at this stage.

## Competition law investigation into 2014 Serie A auction

On 19 April 2016, the Italian Competition Authority (the 'ICA') made its final decision in relation to the award of Serie A TV Broadcasting Rights for the 2015-18 seasons. According to the ICA, Lega Nazionale Professionisti Serie A, its advisor Infront Italy S.r.l., and TV broadcasters Sky Italia, Reti Televisive Italiane S.p.A. and its subsidiary Mediaset Premium S.p.A. entered into an anticompetitive agreement in breach of Art. 101 of the Treaty on the Functioning of the European Union to change the award of TV broadcasting rights for the 2015-18 seasons Serie A matches.

With respect to Sky Italia, the ICA concluded that it had played a marginal and defensive role in the infringement in order to obtain the award of at least one of the two packages that should have been assigned to Sky Italia based on the tendered offers. Moreover, Sky Italia extensively co-operated with the ICA during the proceedings. Accordingly, the ICA imposed a fine equal to €4 million on Sky. On 18 June 2016, Sky Italia filed an appeal seeking the annulment of the decision.

The Strategic Report was approved by the Board and signed on its behalf by the Group Chief Executive Officer.

By order of the Board

**Jeremy Darroch**

Group Chief Executive Officer  
27 July 2016

## Forward-looking statements

This document contains certain forward-looking statements with respect to our financial condition, results of operations and business, and our strategy, plans and objectives.

These statements include, without limitation, those that express forecast, expectations and projections, such as forecasts, expectations and projections with respect to new products and services, the potential for growth of free-to-air and pay television, fixed-line telephony, broadband and bandwidth requirements, advertising growth, DTH and OTT customer growth, Multiscreen, On Demand, NOW TV, Sky Go, Sky Go Extra, Sky+HD, Sky Q, Sky Store, Sky Online, IPTV, mobile, Multiscreen and other services, churn, revenue, profitability and margin growth, cash flow generation, programming costs, subscriber management and supply chain costs, administration costs and other costs, marketing expenditure, capital expenditure programmes and proposals for returning capital to shareholders.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, these statements (and all other forward-looking statements contained in this document) are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or implied or forecast in the forward-looking statements. These factors include, but are not limited to, those risks that are highlighted in this document in the section entitled 'Principal risks and uncertainties', and information on the significant risks and uncertainties associated with our business is described therein.

No part of this document constitutes, or shall be taken to constitute, an invitation or inducement to invest in the Company or any other entity and must not be relied upon in any way in connection with any investment decision. All forward-looking statements in this document are based on information known to us on the date hereof. Except as required by law, we undertake no obligation publicly to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



# Governance

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# Board of Directors

## Key:

- A Audit Committee
- BP Bigger Picture Committee
- R Remuneration Committee
- GN Corporate Governance and Nominations Committee
- Committee Chairman
- Membership



BP GN

**James Murdoch (43)**  
Chairman

**Appointed:** James became Chairman in April 2016, having joined the Board in February 2003. James served as Chief Executive Officer from 2003 to 2007 and as Chairman from 2007 to 2012.

**Skills and experience:** James brings significant media sector knowledge and experience through his role at 21st Century Fox. He was Chairman and Chief Executive Officer of Star Group Limited from 2000 to 2003, and held Non-Executive Director roles at GlaxoSmithKline plc from 2009 to 2012 and Sotheby's from 2010 to 2012.

**External Appointments:** James was appointed as Chief Executive Officer at 21st Century Fox in June 2015. He also serves as a member of the Board of News Corporation and is a Non-Executive Director of Yankee Global Enterprises, Vice Media, and a member of the Board of Trustees of the Ghetto Film School.



**Jeremy Darroch (54)**  
Group Chief Executive Officer

**Appointed:** Jeremy joined Sky as Chief Financial Officer and Executive Director in 2004 and was appointed to his current role in December 2007.

**Skills and experience:** Jeremy has extensive experience in the retailing and fast-moving consumer goods sectors. Prior to joining Sky, Jeremy was Group Finance Director of DSG International plc, formerly Dixons Group plc. He has also spent 12 years at Procter & Gamble in a variety of roles in the UK and Europe. Jeremy is a former Non-Executive Director and Chairman of the Audit Committee of Marks and Spencer Group plc from 2006 to 2013.

**External Appointments:** In February 2014, Jeremy was appointed Non-Executive Director of Burberry Group plc and serves as a member of the Audit, Remuneration and Nomination Committees. He is a Business Member of the National Centre for Universities and Business.



**Andrew Griffith (45)**  
Group Chief Operating Officer and Chief Financial Officer

**Appointed:** Andrew was appointed Group Chief Operating Officer in March 2016. In addition to his role as Chief Financial Officer he is responsible for the Group's overall future growth plans as well as the Group's advertising businesses across Europe including AdSmart.

**Skills and experience:** Andrew joined the Company in 1999 from Rothschild, the investment banking organisation, where he provided financial and strategic advice to corporate clients in the technology, media and telecommunications sector. He held a number of senior finance roles prior to his appointment as Chief Financial Officer and member of the Board in 2008, has a Bachelor of Law degree from Nottingham University and is a qualified chartered accountant.

**External Appointments:** In March 2014, Andrew was appointed Senior Independent Non-Executive Director of Just Eat plc and is also a Chairman of the Audit Committee and member of the Remuneration and Nomination Committees. He is a Trustee of Riverside Studio's in West London, a registered charity.



**Chase Carey (62)**  
Non-Executive Director

**Appointed:** January 2013

**Skills and experience:** Chase has extensive knowledge and experience of the international media and pay TV sectors. He is a former President and Chief Executive Officer of DirecTV, where he led the operations and strategic direction of the DirecTV Group. Prior to joining DirecTV, Chase was Co-Chief Operating Officer of News Corporation (subsequently renamed 21st Century Fox) and Chairman and Chief Executive Officer of the Fox Television Group.

**External Appointments:** Chase was the former President, Chief Operating Officer and Deputy Chairman of 21st Century Fox from 2009 to 2015. From July 2015 to July 2016 Chase was Executive Vice Chairman of 21st Century Fox and from July 2016 serves as Vice Chairman.



R BP

**Tracy Clarke (49)**  
Independent Non-Executive Director

**Appointed:** June 2012

**Skills and experience:** Tracy brings a wide range of operational experience having spent the early part of her career in corporate banking. She went on to take leadership of corporate affairs, brand and marketing, media relations, human resources, and latterly, global compliance, all with Standard Chartered Bank. She served as a Non-Executive Director of Standard Chartered First Bank in Korea from 2005 to 2007 and Non-Executive Director of Eaga plc from 2007 to 2011, where she chaired the Remuneration Committee.

**External Appointments:** Tracy is a member of the Management Team and a Director of Standard Chartered. On 1 October 2015 she was appointed Regional Chief Executive Americas and Europe. Tracy is a trustee of WORKing for YOUTH; is a Board member for England Netball; a co-opted member on the CBBC Board; member of the Institute of Financial Services and a Fellow of the Chartered Institute of Personnel and Development.



A GN

**Martin Gilbert (61)**  
Deputy Chairman

**Appointed:** November 2011

**Skills and experience:** Martin has been involved in the investment management industry since 1982 and has extensive investment, finance and executive leadership experience through his role as co-founder and Chief Executive Officer of Aberdeen Asset Management PLC. He has served as Chairman of FirstGroup plc, Chaucer PLC and was Non-Executive Director of Dynmark International Limited, a mobile messaging and data applications services provider.

**External Appointments:** In addition to his role as Chief Executive Officer of Aberdeen Asset Management PLC, Martin is Chairman of the Prudential Regulatory Authority (PRA) Practitioner Panel.



**Adine Grate** (55)  
Independent Non-Executive Director

**Appointed:** July 2013

**Skills and experience:** Adine brings a wealth of executive, finance and investment management and communications technology experience having operated at the top tiers of Nordic-based international business for the past two decades. Formerly Executive Vice President and Managing Director of Investor AB, owner of a number of Nordic-based international companies.

**External Appointments:** Adine is a Chairperson of NASDAQ OMX Swedish Listing Committee and Vice Chairperson of AP7, a Swedish pension and savings asset management company. She is Director of: Three (Scandinavia), a mobile telecommunications and broadband operator; Sampo OY, a leading financial and insurance institution; and Swedavia AB, an airport operator.



**Dave Lewis** (51)  
Independent Non-Executive Director

**Appointed:** November 2012

**Skills and experience:** Dave is an experienced executive with strong operational expertise. He is Chief Executive Officer of Tesco plc and prior to that he was President, Personal Care for Unilever plc, where he sat on the Unilever Leadership Executive. He has held a variety of leadership roles at Unilever in Europe, South America and Asia including President for the Americas and Chairman of Unilever UK and Ireland.

**External Appointments:** Dave was appointed as Chief Executive Officer of Tesco plc in September 2014.



**John Nallen** (59)  
Non-Executive Director

**Appointed:** November 2015

**Skills and experience:** John is a highly experienced executive with strong media and finance industry expertise. He previously served as Senior Executive Vice President and Deputy Chief Financial Officer of 21st Century Fox from 2001 to 2013. John joined News Corporation in 1995 after working at Arthur Andersen for the previous 16 years.

**External Appointments:** John is Senior Executive Vice President and Chief Financial Officer for 21st Century Fox, a role which he assumed on 1 July 2013.



**Matthieu Pigasse** (48)  
Independent Non-Executive Director

**Appointed:** November 2011

**Skills and experience:** Matthieu brings significant knowledge of the European media sector and finance expertise to the Board. He is CEO for Lazards, France and Vice Chairman of Lazard (Europe). He is also the Global Head for Mergers and Acquisitions and the Global Head for Sovereign Advisory of Lazard. He has also served in the French Ministry of Economy and Finance.

**External Appointments:** In addition to his role at Lazard, Matthieu has a number of personal interests in media and publishing, notably Le Monde and the Huffington Post (France). He is a Board member of Group Lucien Barrière SAS, an operator of luxury hotels and restaurants and Derichebourg a recycling and maintenance services business.



**Andy Sukawaty** (61)  
Senior Independent Director

**Appointed:** June 2013

**Skills and experience:** With over 30 years of telecommunications media technology experience Andy brings strong industry knowledge to the Board. He has led companies in the mobile phone, Cable TV and satellite industries in the US and Europe and serves as Non-Executive Chairman of Inmarsat plc, a global mobile satellite communications provider.

**External Appointments:** In addition to his role as Non-Executive Chairman of Inmarsat plc, Andy has previously held a number of senior management positions in the telecommunications industry including; Chairman of Ziggo N.V., a Dutch cable TV and communications company, resigning in December 2014. He has also previously served as Chief Executive Officer and President of Sprint PCS, a NYSE listed global national wireless carrier. Andy is also an Executive in Residence for Warburg Pincus.

# Corporate governance report

## Chairman's overview



On behalf of the Board it gives me great pleasure to introduce this year's corporate governance report. I would like to take this opportunity to provide you with some direct insight into the Board's view of Corporate Governance and the changes to our Board composition through the year.

As a Board, we are the stewards of the Company. It is our responsibility to ensure that the Company's strategy is aligned to the interests of our investors and takes account of the interests of all the Company's stakeholders. As individuals, we believe that effective corporate governance is based on honesty, integrity and transparency and can only be fully realised within an environment of open, robust and effective debate. This is the Board culture we foster at Sky and it is my personal responsibility as Chairman to ensure that we continue to live this culture and promote it within our business.

At the conclusion of last year's AGM, David DeVoe, Danny Rimer and Arthur Siskind stepped down from the Board and John Nallen was appointed as a Non-Executive Director. As a result of these changes, the number of Board members reduced from 14 to 12. It has been the desire of the Board for its size to be reduced when a suitable opportunity arose. After taking into consideration the existing mix of skills and experience on the Board, the Board felt that the time was right to reduce its size.

Furthermore, I took over as Chairman in April 2016, replacing Nick Ferguson who had served as Chairman since 2012 and a Non-Executive Director since June 2004. At the same time Martin Gilbert assumed the role of Deputy Chairman and Andy Sukawaty was appointed as the Senior Independent Director. An explanation of the appointment process is detailed on page 47.

This year, in line with corporate governance best practice, an external Board evaluation was undertaken by Alice Perkins of JCA Group. The feedback from the evaluation confirmed that the Board and each of its Committees continue to operate effectively and that each Director continues to make an effective contribution and retains a strong commitment to their role. The resulting development themes that arose from the evaluation are discussed on pages 41 to 42.

The Board has established arrangements to evaluate whether the information in the Annual Report is fair, balanced and understandable. Further detail of these arrangements can be found on page 44. As a result of this, the Board considers the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

During the year we have continued our work in promoting greater and more effective engagement with our shareholders. The Executive Directors meet our investors and analysts and discuss a wide range of topics. Martin Gilbert and Andy Sukawaty have engaged with shareholders on corporate governance issues and Tracy Clarke, Chair of the Remuneration Committee, has also engaged on remuneration issues. We will continue to engage with our shareholders over the course of the coming financial year.

**James Murdoch**  
Chairman

## Compliance with the UK Corporate Governance Code

The UK Corporate Governance Code ("Code") provides the standard for corporate governance in the UK. The Financial Conduct Authority requires listed companies to disclose whether they have complied with the provisions of the Code throughout the financial year.

The Board considers that the Company has complied with the provisions and applied the main principles of the Code for the whole of the year ended 30 June 2016 except for provision A.3.1 which is explained on page 47. This section of the Annual Report along with the Directors' remuneration report on pages 49 to 63, the Directors' report and other statutory disclosures on pages 64 to 69 provide details of how the Company has applied the main principles of corporate governance, in particular those laid down in the Code. The Code can be accessed at [www.frc.org.uk](http://www.frc.org.uk)

## Leadership

### Role of the Board

The Board has collective responsibility for the management, direction and performance of the Company and provides leadership within a framework of prudent and effective controls which enables risk to be appropriately assessed and managed. The Board sets the strategic direction, ensuring that the necessary resources are in place for the Company to meet its objectives and deliver sustainable performance.

The Board takes a long-term outlook and sees itself as responsible to a wide range of stakeholders, whilst pursuing its objectives in a manner consistent with its statutory duties, for the benefit of the Company's members as a whole.

The Directors of the Board are selected on the criteria of proven skill and ability in their particular field of endeavour and a diversity of outlook and experience which directly benefits the operation of the Board as the custodian of the business. A full biography of each Board member is provided on pages 36 and 37.

## Roles and responsibilities

The roles of the Chairman and Group Chief Executive Officer are separate and have been so since the Company's shares were admitted to listing in 1994. The roles and expectations of each Director are clearly defined and recorded within their letters of appointment or service contracts. The roles and responsibilities of the Board members are explained below.

### The Chairman

James Murdoch is responsible for leadership of the Board, ensuring its effectiveness on all aspects of its role and setting its agenda. The Chairman is responsible for creating an environment for open, robust and effective debate. This includes ensuring, via the Company Secretary, that the Directors receive accurate, timely and clear information.

### The Group Chief Executive Officer ('Group CEO')

Jeremy Darroch is responsible and accountable to the Board for the management and operation of the Company, advancing long-term shareholder value, supported by the management team. He is also involved in the management of the social and environmental responsibilities of the Company.

### Deputy Chairman

Martin Gilbert deputises for the Chairman as appropriate, provides a sounding board to Non-Executive Directors and is an additional point of contact for shareholders.



### Senior Independent Non-Executive Director ('SID')

Andy Sukawaty is responsible for providing support to the Chairman and provides an independent point of contact for shareholders.

### Non-Executive Directors

Chase Carey, Tracy Clarke, Martin Gilbert, Adine Grate, Dave Lewis, John Nallen, Matthieu Pigasse and Andy Sukawaty, collectively, are responsible for constructively challenging the Executive Directors and overseeing the delivery of the Company's strategy within the risk and control framework.

### Company Secretary

Chris Taylor is responsible for the following in respect of effective Board operation:

- To ensure good information flows within the Board and its Committees, between senior management and Non-Executive Directors;
- To facilitate Director induction and assisting with professional development;
- To advise the Board through the Chairman of all corporate governance obligations and developments in best practice; and
- To be responsible for communicating with shareholders as appropriate.

All Directors have access to the advice and services of the Company Secretary who advises on corporate governance matters, Board procedures and other relevant rules and regulations. In addition, Directors have the right to seek independent professional advice at the Company's expense.

### Environment supportive of challenge

The effective operation of the Board is dependent on the inherent checks and balances within the various Board roles. As highly qualified and successful individuals in their respective fields of endeavour, all Non-Executive Directors influence, debate and contribute to decisions relating to the strategy of the Company, its performance and its impact on stakeholders. The Non-Executive Directors are evaluated and judged on the quality and content of their contributions to Board debate and are expected to offer alternative viewpoints and challenge perceptions and decisions as appropriate.

### Board agenda

In addition to its reserved and standing matters, during the year the Board also considered and received a number of updates and presentations, giving Directors a further opportunity to explore and analyse topics such as:

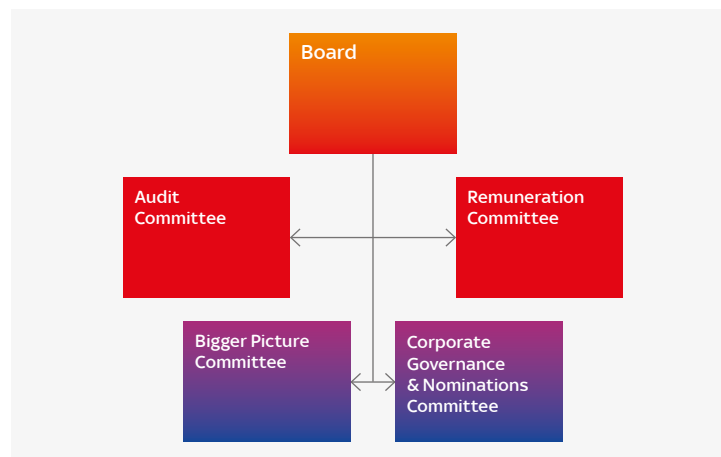
- The Group's operations and five-year financial plans;
- The general market and economic outlook;
- The competitive landscape, opportunities and market trends;
- Growth of existing business activities; and
- Existing and new products, services and technological developments.

To maintain an appropriate level of control over the day-to-day affairs of the Company, the Board has identified certain matters that only it can approve, and these matters are contained within the Company's 'Schedule of Matters Reserved to the Board' which can be found at [sky.com/corporate](http://sky.com/corporate)

### Board delegation

The Board has delegated specific responsibilities to Board committees, notably the Audit, Remuneration, Corporate Governance & Nominations, Bigger Picture and Executive Committees. Each Committee's terms of reference can be found on the Company's corporate website [sky.com/corporate/about-sky/corporate-governance](http://sky.com/corporate/about-sky/corporate-governance)

### Board and Committee framework



The Audit Committee has responsibility for oversight of corporate reporting, risk management and the Company's relationship with its auditor. The Audit Committee conducts a robust assessment of the Group's principal risks and their mitigation on behalf of the Board, and reviews the effectiveness of internal controls. Significant risks to the business are kept under review and appropriate material controls are sanctioned and employed as appropriate. The Company's principal risks and examples of how we mitigate those risks are detailed on pages 28 to 31. The Audit Committee also oversees the review of whether the Annual Report is fair, balanced and understandable. For further details, the Audit Committee Report can be found on pages 43 to 46.

The Remuneration Committee is responsible for setting the remuneration policy for the Board and ensures that no Director is involved in decisions affecting their own remuneration. The Directors' remuneration report can be found on pages 49 to 63.

The Corporate Governance & Nominations Committee is responsible for oversight of the structure, size, composition and succession planning of the Board and its Committees and overall compliance with corporate governance standards. The Report of the Corporate Governance & Nominations Committee can be found on pages 46 and 47.

The Bigger Picture Committee has responsibility for oversight of the social, environmental and ethical impacts of the Company's activities. The report of the Bigger Picture Committee can be found on page 48.

The Executive Committee is responsible for approving routine business such as the approval of share option exercises and specific business delegated by the Board.

The minutes of Committee meetings are made available to all Board Directors on a timely basis. At each Board meeting the Chairman of each Committee provides the Board with a brief update of the work currently being carried out by the Committee they chair. Other sub-committees and steering groups provide additional resource and support to the Board Committees or are formed for specific tasks.

A Committee of senior management generally meets on a weekly basis to allow prompt discussion of relevant business issues. The Committee comprises the Group CEO, Group Chief Operating Officer and Chief Financial Officer ('Group COO & CFO') and other senior executives from within the Group.

### Board and Committee attendance

Attendance at Board and Committee meetings during the year is set out in the table below. The table shows the number of meetings each Director was eligible to attend.

	Board	Audit	Remuneration	Corporate Governance & Nominations	Bigger Picture
Number of meetings held in year	6	7	5	3	2
<b>Executive Directors</b>					
Jeremy Darroch, Group CEO	6/6				
Andrew Griffith, Group COO & CFO	6/6				
<b>Non-Executive Directors</b>					
Chase Carey	5/6				
Tracy Clarke	5/6		5/5		2/2
David DeVoe <sup>1,5</sup>	1/2				
Nick Ferguson <sup>2</sup>	2/2		4/4	1/1	
Martin Gilbert	6/6	7/7		3/3	
Adine Grate	6/6	7/7	5/5		
Dave Lewis <sup>4</sup>	5/6	6/7		2/3	2/2
James Murdoch <sup>5</sup>	5/6			2/2	2/2
John Nallen <sup>3</sup>	4/4				
Matthieu Pigasse <sup>5</sup>	6/6	5/7			
Danny Rimer <sup>1</sup>	2/2				
Arthur Siskind <sup>1</sup>	2/2			1/1	
Andy Sukawaty <sup>6</sup>	5/6		5/5		

1 David DeVoe, Arthur Siskind and Danny Rimer retired from the Board at the conclusion of the AGM on 4 November 2015.

2 Nick Ferguson retired from the Board and stepped down as Chair of the Corporate Governance & Nominations Committee and as a member of the Remuneration Committee on 30 April 2016.

3 John Nallen joined the Board on 4 November 2015 immediately following the AGM.

4 Dave Lewis stepped down as a Member of the Corporate Governance & Nominations Committee on 9 June 2016.

5 Directors are encouraged to attend Board and respective Board and Committee meetings but in certain circumstances meetings are called at short notice and due to prior business commitments and time differences Directors may be unable to attend. In these circumstances Directors receive relevant papers and are updated on developments by either the Chairman or Group CEO.

6 In addition to the meetings set out in the table above, the Independent Non-Executive Directors held a meeting to discuss Chairman succession during the year.

## Effectiveness

### Board composition and independence

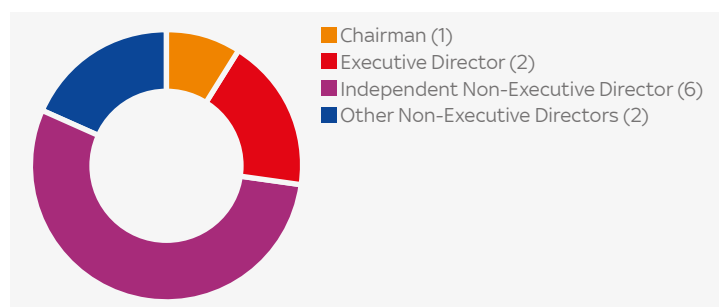
The Board currently comprises 11 Directors, made up of two Executive Directors and nine Non-Executive Directors. A majority of six of the Board of Directors are determined to be independent by the Board in accordance with provision B.1.2 of the Code. On appointment the Chairman did not meet the independence criteria set out in provision B.1.1 of the Code. Further details are set out on page 47. Biographies of each of the Directors are set out on pages 36 and 37.

Chase Carey, James Murdoch and John Nallen represent the Company's largest shareholder, 21st Century Fox, and as such are not considered to be independent within the meaning of the Code. Each of these Directors has extensive media and pay TV experience and make a significant contribution to Board discussion.

The Independent Non-Executive Directors bring a wide range of experience and expertise to the Group's affairs, and carry significant weight in the Board's decisions. The Independent Non-Executive Directors are encouraged to challenge management and help develop proposals on strategy. Time is regularly put aside at Board meetings to discuss the strategic direction of the Company.

Prior to appointment, and on an annual basis, each Board member receives and completes a questionnaire to determine factors that may affect independence according to best practice statements contained within the Code. The responses to the questionnaire assist the Board in ascertaining whether a Director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the Director's judgement.

### Board Composition



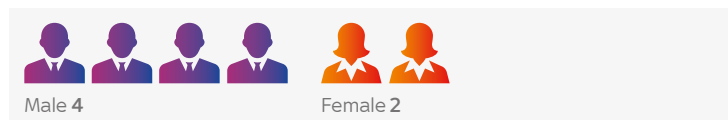
### Appointments to the Board, diversity and succession planning

The Corporate Governance & Nominations Committee keeps the Board's balance of skills, knowledge, experience and the length of service of individuals under constant review. In respect of succession planning and supplementing the skill set of the Board, there is an established procedure for the appointment of new Directors. In brief, the Committee identifies the set of skills and experience required and, with the assistance of external search agencies, selects individuals to take Board positions on review of their individual merits, regardless of gender, race, religion, age or disability. Further information on the work of the Committee during the year can be found on pages 46 and 47.

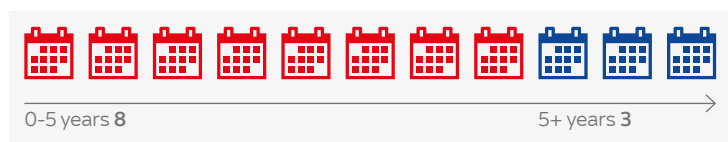
Copies of the Executive Directors' service contracts and letters of appointment of the Non-Executive Directors may be inspected at the registered office of the Company during normal business hours on any weekday (except Saturdays, Sundays and public holidays) and at the place of the Annual General Meeting ('AGM') for 15 minutes prior to the meeting until the conclusion of the AGM.

The Board has published a statement of its intention to increase female representation on the Board which can be found on the Company's corporate website [sky.com/corporate](http://sky.com/corporate). As required by company legislation, a table on page 65 illustrates gender diversity amongst the Board.

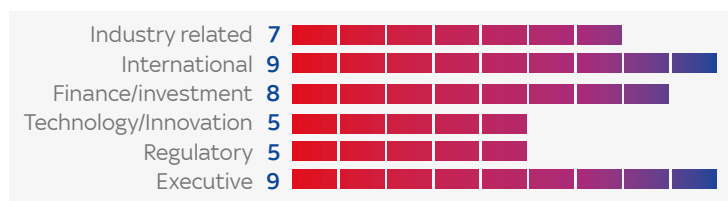
#### Diversity ratio of Directors appointed in past four years



#### Length of time served on the Board



#### Industry/Background experience



Note: This covers the experience of the Non-Executive Directors who may fall into one or more of the above categories.

#### Directors' reappointment

In accordance with Code provision B.7.1., all continuing Executive and Non-Executive Directors will retire and offer themselves for reappointment at the Company's 2016 AGM, with the exception of Dave Lewis who has decided not to seek reappointment this year and will step down from the Board at the conclusion of the AGM. The Board has started the process to appoint a new Independent Non-Executive Director to ensure that the Board continues to be comprised of a majority of Independent Non-Executive Directors.

#### External directorships

Any external appointments for the Executive Directors are considered by the Corporate Governance & Nominations Committee. Executive Directors are not allowed to take on the Chairmanship of a FTSE 100 company, but are allowed to take up one external Non-Executive FTSE 100 appointment and retain any payments in respect of such appointments.

Jeremy Darroch was appointed as an Independent Non-Executive Director of Burberry Group plc on 5 February 2014, and is a member of the Audit, Nomination and Remuneration Committees.

Andrew Griffith was appointed as an Independent Non-Executive Director of Just Eat plc on 12 March 2014. Andrew serves as Senior Independent Director, Chairman of the Audit Committee and is a member of the Remuneration and Nomination Committees. Details of pay in respect of these appointments can be found in the Directors' remuneration report on page 54.

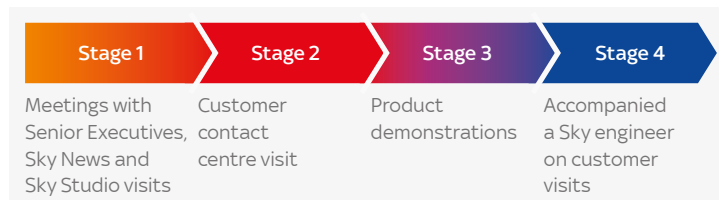
#### Time commitment

All Non-Executive Directors are advised of the likely time commitments required on induction and are expected to devote sufficient time for the effective discharge of their functions. The Company provides Non-Executive Directors with appropriate support and facilities for consideration of the Company's strategy and performance and a dialogue with the Chairman is strongly encouraged so that any issues regarding conflicting commitments and time pressures can be addressed appropriately.

#### Induction and training

All new Directors receive an induction tailored to their individual requirements. The induction process involves meeting with all of the Company's Executive Directors and Senior Executives. This facilitates their understanding of the Group and the key drivers of the business' performance. During the year, Directors have received presentations from a number of areas of the business including Customer Group, Content, Business Development, Technology and Strategic Planning Group. The Chairman meets with the Directors throughout the year to review their developmental needs.

An example of a tailored induction programme is detailed below:



In addition to this, various presentations from prior Board meetings will be made available to the Director in order to improve their understanding of the Group and the competitive and regulatory landscape in which it operates. Consideration is given to Committee appointments and where relevant, tailored training may be required.

#### Board evaluation

In line with corporate governance best practice, an external Board evaluation was undertaken during the year. The process was facilitated by Alice Perkins who works for the coaching division of JCA Group. The Company has no other relationships with JCA Group.

Following discussions with the Chairman, CEO and the Company Secretary, JCA Group prepared discussion guidelines which formed the basis for one-to-one interviews with all Board members and the Company Secretary. The areas covered by the discussion guidelines included:

- Organisation of the Board and its composition
- Committee organisation and composition
- Strategy
- Peer reviews
- Board involvement
- Board relations with key stakeholders
- Risk, compliance and financial monitoring
- Overall Board effectiveness

The findings were presented to the Board for discussion in April 2016. The feedback confirmed that the Board and each of its Committees continue to operate effectively and that each Director continues to make an effective contribution and demonstrates a strong commitment to the role.

The Board discussed the key findings and agreed the following action points:

- The composition of the Board and its Committees would be kept under review;
- Board information flows would be reviewed to ensure that all Directors are kept up to date with developments in between meetings;
- The way in which Board Committees keep the rest of the Board informed of their work would be reviewed; and
- The Board and Committee meeting schedule would be reviewed.

The performance of each Director was evaluated as part of the evaluation process, based on self-analysis and input from the other Directors. It is the Board's intention to continue to review its performance and that of its Committees and individual Directors on an annual basis. In respect of the evaluation process for the 2016/17 financial year, it is likely an internal evaluation will be undertaken.

#### **Information provided to the Directors**

The Company Secretary is responsible for ensuring good information flows within the Board and its Committees and between senior management and Non-Executive Directors. For each Board and Committee meeting, Directors are provided with a tailored Board pack at least one week prior to the meeting. To improve the delivery and security of Board papers, the Company has adopted an electronic system allowing the Board to easily access information, irrespective of geographic location. Directors regularly receive additional information from the Company between Board meetings, including a daily press summary and a monthly Group performance update. Where a Director was unable to attend a meeting, they were provided with all the papers and information relating to that meeting and were able to discuss issues arising directly with the Chairman and Group CEO.

#### **Conflicts of interest**

Under UK Company law, all Directors must seek authorisation before taking up any position with another company that conflicts, or may possibly conflict, with the Company's interests. The Company's Articles of Association contain provisions to allow the Directors to authorise situations of potential conflicts of interest so that a Director is not in breach of his duty under company law.

All existing external appointments for each Director have been authorised by the Board and each authorisation is set out in a Conflicts Register. Directors are required to notify the Board of potential conflicts so that they can be considered, and if appropriate, authorised by the Board. In addition, the Corporate Governance & Nominations Committee conducts an annual review of Directors' conflicts and reports its findings to the Board. The Corporate Governance & Nominations Committee reviewed the Board's conflicts during the financial year and concluded that conflicts had been appropriately authorised and that the process for authorisation is operating effectively. The Corporate Governance & Nominations Committee and the Board will continue to monitor and review potential conflicts of interest on a regular basis.

#### **Directors' and Officers' Insurance and Indemnity**

The Company recognises that all Directors are equally and collectively accountable under the law for the proper stewardship of the Company's affairs. The Company maintains a Directors' and Officers' liability insurance policy. Additionally, the Company's Articles of Association allow the Company to indemnify the Directors and deeds of indemnity have been issued to all Directors of the Company to the extent permitted by law.

### **Relations with shareholders**

#### **Shareholder communications**

Presentations and webcasts on the development of the business are available to all shareholders on the Company's corporate website. The Company also uses email alerts and actively promotes downloading of all reports enhancing speed and equality of shareholder communication. The Company has taken full advantage of the provisions within the Companies Act 2006 allowing the website to be used as the primary means of communication with shareholders where they have not requested hard copy documentation. The shareholder information section on page 138 contains further details on electronic shareholder communications together with more general information of interest to shareholders which is also included on the Company's corporate website [sky.com/corporate](http://sky.com/corporate)

#### **Shareholder engagement**

The Company is committed to maintaining and improving dialogue with shareholders in order to ensure that the objectives of both the Group and the shareholders are understood. A programme of meetings with institutional shareholders, fund managers and analysts takes place each year and the Group CEO and Group COO & CFO have attended meetings with investors, as appropriate. The Company also makes presentations to analysts and investors around the time of the half-year and full-year results announcement; conference calls are held with analysts and investors following the release of the first quarter and third quarter trading statements and presentations are made during the year to many existing or potential shareholders at investor conferences. The Company holds meetings with its major shareholders to discuss corporate governance and remuneration matters from time to time.

#### **The AGM**

The Board views the AGM as an opportunity to communicate with private investors and sets aside time at the meeting for shareholders to ask questions. At the AGM, the Chairman provides a brief summary of the Company's activities for the previous year. All resolutions at the 2015 AGM were voted by way of a poll. This follows best practice and allows the Company to count all votes rather than just those of shareholders attending the meeting. As recommended by the Code, all resolutions were voted separately and the final voting results, which included all votes cast for, against and those withheld, together with all proxies lodged prior to the meeting, were released to the London Stock Exchange as soon as practicable after the meeting. The announcement was also made available on the Company's corporate website. As in previous years, the proxy form and the announcement of the voting results made it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for or against the resolution.

# Report of the Audit Committee

## Chairman's overview



During the year the Audit Committee has continued to play a key oversight role on behalf of the Board. The Committee's principal activities have focused on the financial performance of the Company, internal audit, external audit, risk management, compliance and governance.

The Committee has also monitored the Company's approach to risk management and the independence and effectiveness of the external auditors, and received a number of presentations from management relating to data governance, security, internal audit, treasury, taxation, and health and safety.

We have considered the processes underpinning the production and approval of this year's Annual Report to enable the Board to confirm that the Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. A description of how we approached this can be found in this report.

The Committee assessed the viability of the Group over a three-year period, applying downside sensitivity to our business as usual plans which takes account of the principal risks identified. Further detail on how the Committee approached this is detailed in this report.

There were seven meetings during the year and after each Committee meeting the Committee Chairman provided an oral update to the Board on the key issues discussed during our meetings. The Committee also had a meeting with the Company's external auditors without management present.

In June 2016, Martin Gilbert stepped down as Chairman of the Committee and I would like to thank him for his stewardship of the Committee during his Chairmanship. Martin remains a Committee member.

You can find additional information of how we have carried out our role and responsibilities within the remainder of this report.

**Adine Grate**  
Committee Chairman

### Committee composition

Adine Grate (Chairman)  
Martin Gilbert  
Dave Lewis  
Matthieu Pigasse

The Committee members have considerable financial and business experience and the Board considers that the membership as a whole has sufficient recent and relevant financial experience to discharge its responsibilities. In addition, the Board has determined that each member of the Committee has sufficient accounting or related financial management expertise in line with the Code.

### Attendance at Committee meetings

John Nallen has a standing invitation to attend meetings. However, his attendance at these meetings is as an observer and in a non-voting capacity. The Group COO & CFO, other business and finance executives and representatives from the external auditor, Deloitte LLP, and the internal audit department attend meetings at the request of the Committee. The Company Secretary acts as Secretary to the Committee.

### Audit Committee agenda

Focus for the Committee this year has included the following items:

- Review and recommendation to the Board of the interim and full-year financial statements, including whether the Annual Report is fair, balanced and understandable
- Review and approval of the first and third quarter trading statements
- Quarterly updates from the Group COO & CFO on business performance across the Group
- Audit plans and findings of external and internal audits
- The review and recommendation to the Board of the dividend policy and proposed payments
- Liquidity and going concern review
- Annual reporting due diligence procedures and corporate governance updates including the new requirement for a viability statement
- Assessment of the effectiveness of the external audit process and scope of audit
- Auditor independence and the policy on the provision of non-audit services by the external auditor
- Quarterly review of non-audit services and fees
- Quarterly reports from the treasury function on the funding, liquidity, going concern and operational capabilities of the Group and compliance with treasury policies
- Quarterly updates on planned internal audit work and on the status of Senior Accounting Officer ('SAO') certification work to ensure SAO compliance
- Quarterly reports of all transactions with a related party during the period
- Review of transactions which fall within the Listing Rule 11.1.5R definition of Related Party Transaction and all transactions with a related party in excess of £10 million and where required recommendation to the Board
- Review and oversight of the Group risk register, risk methodology and risk management systems and processes
- Monitoring and reviewing the effectiveness of the Group's internal audit function and controls
- Taxation, security, fraud, health and safety and data protection matters.

The Committee's terms of reference are available on the Company's corporate website.

### Significant accounting issues

When considering the annual financial statements, the Committee reviewed the significant accounting issues and the Group's critical accounting policies as set out on pages 86 to 87 with particular focus on the following:

#### Retail subscription revenue:

The majority of the Group's revenues derive from retail subscription packages, including hardware, supplied to customers. The Group applies judgement in determining the accounting allocation of payments received from customers to different elements of the bundled package, taking into consideration the timing and relative value attributed to each element. During the year, the Committee received a performance report from the Group COO & CFO at each Committee meeting that included a review of revenues recognised in the period.

The Committee considered management's policy and considered the views of the external auditor and is satisfied that the policies have been applied consistently and appropriately.

#### General entertainment programming inventory:

The Committee reviewed the policy for the recognition of content costs and challenged management on the appropriateness of the policy, and took into account the views of the external auditor that the policy is appropriate and has been applied consistently. The method for recognising general entertainment programming expense requires estimation and judgement to ensure that the expense profile is consistent with the expected value of the content to the Group.

The Committee is satisfied that the policies have been applied consistently, are appropriate and are aligned to industry practice.

#### Capitalisation of intangible and tangible non-current assets:

The Committee considered the Group's policies and sought assurances from management that the Group's project accounting controls are operating as intended and that spend capitalised as property, plant and equipment and intangible assets meets the relevant accounting requirements. The Committee also considered the report from the external auditor.

The Committee is satisfied that the Group has followed appropriate accounting standards regarding the capitalisation of project expenditure.

### Internal control and risk management

The Board is responsible for establishing and maintaining the Group's systems of internal control and risk management and for reviewing their effectiveness. These systems are designed to manage, and where possible eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group in accordance with the revised guidance on internal control issued by the Financial Reporting Council in September 2014. During the period under review, the Committee discussed a number of areas where actions had been identified to further improve the control environment, however no material failings or weaknesses were identified.

The Committee, on behalf of the Board, considers the effectiveness of the operation of the Group's systems of internal control and risk management during the year and this review has been carried out for the year ended 30 June 2016 and up to the date on which the financial statements were approved. This review relates to the Company and its subsidiaries and does not extend to joint ventures. The Committee meets on at least a quarterly basis with the Group's Director: Audit, Risk Management and Compliance and the external auditor.

There is a comprehensive budgeting and forecasting process, and the annual budget, which is regularly reviewed and updated, is approved by the Board. Performance is monitored against budget through weekly and monthly reporting cycles. During the financial year under review monthly reports on performance were provided to the Board and the Group reports to shareholders each quarter.

In respect of Group financial reporting, the Group Finance team is responsible for preparing the Group financial statements and there are well established controls over the financial reporting process. These are also documented in line with the requirements of the SAO legislation and the controls are reviewed and signed off to confirm their continuous operation by the control owners twice a year and are independently tested by the internal audit team. The results of the SAO testing are reported to the Committee on a quarterly basis.

#### Changes in internal controls

No change in the Group's internal control over financial reporting has occurred during the year ended 30 June 2016 that has materially affected, or is reasonably likely to materially affect, the Group's internal control over financial reporting. The Group acquired Sky Deutschland and Sky Italia during the previous financial year which introduced additional complexity to financial reporting. Since the operating model and business operations of the acquired entities are similar to those of the existing Group, the controls over financial reporting remained materially consistent.

#### Risk registers

There are risk registers which identify the risks faced by the Group and these are consolidated into a Group Risk Register. The risk register framework is based on methodology to identify the risk based on impact and likelihood. The risk is assessed, quantified and measured which enables discussions on risk appetite. The registers detail the controls that manage the risks and where necessary, the action plans to mitigate the risk exposure.

The business develops the action plans and the internal audit team monitors their implementation. The internal audit team provides objective assurance as to the effectiveness of the Group's systems of internal control and risk management to the Group's operating management.

The Committee formally reviews the Group Risk Register twice a year and carries out a robust assessment of the principal risks and uncertainties facing the Group and has done so during the year. The Group's principal risks and uncertainties are detailed on pages 28 to 31. There is, in addition to the twice yearly review, 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.

#### Fair, balanced and understandable assessment

The Financial Reporting Committee ('FRC'), an internal committee, has responsibility for the production of the annual report and the associated review process. Guidance and comprehensive due diligence procedures were issued to reviewers by the FRC to help them assess whether the document was fair, balanced and understandable and complied with the requirements of the Code. The FRC maintained oversight of the review process and submitted certification to the Committee to enable it to be in a position to recommend to the Board that the required statement could be made.

### Viability statement

A new obligation introduced in 2014 requires the Directors to confirm whether they have a reasonable expectation that the Company and the Group will be able to continue to operate and meet their liabilities as they fall due over a longer-term period. The disclosure must set out the basis for Directors' conclusions and explain why the period chosen is appropriate.

The Committee sought management's input to its assessment of the viability of the Company and the Group. The assessment, which was based on the Group's operating, capital and funding plans, also included consideration of the principal risks which could impact the performance of the Group and its liquidity and capital projections over the period. The Committee was satisfied that the viability statement be provided and agreed that three years was a suitable period of review. The Viability Statement is detailed on page 31.

### Disclosure control and procedures

The Company maintains disclosure controls, procedures and systems that are designed to ensure that information required to be disclosed as part of the Company's UK listing obligations is accumulated and communicated to management, including the Group CEO and Group COO & CFO, as appropriate to allow timely decisions regarding required disclosures.

### Auditor independence

During the year ended 30 June 2016, the Committee reviewed audit independence and scope of non-audit services and independence safeguards with Deloitte LLP ('Deloitte'), the Group's external auditor.

As part of the review, the Audit Committee has received and reviewed confirmation in writing that, in Deloitte's professional judgement, Deloitte is independent within the meaning of all UK regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired.

The Committee was satisfied throughout the year that the objectivity and independence of Deloitte was not in any way impaired by either the nature of the non-audit related services undertaken during the year, the level of non-audit fees charged, or any other facts or circumstances.

Prior to the Group's acquisitions of Sky Italia and Sky Deutschland, Deloitte member firms in Italy and Germany had substantial consulting engagements with those businesses. A transition plan was approved by the Committee and fully implemented in order to restructure and cease any independence-impairing aspects of those engagements in accordance with relevant auditor independence rules.

During the current year, the Group has implemented an orderly ramp-down of the majority of Deloitte's non-audit work. Deloitte has been involved in certain strategic customer and operating systems projects since their inception and has specialist knowledge which it would be time consuming and costly to build up with another advisor. The Committee therefore approved a certain level of permitted consulting advisory services with respect to these strategic projects for the current year and has approved the continuation of this work at a further reduced level in the year ending 30 June 2017. Non-audit fees have declined very significantly over each of 2014/15 (pro-forma basis spend of £19.5 million) and 2015/16 (£7.8 million), and are expected to decline in 2016/17 (£4.0 million) and to fall below the level of the audit fee by 2017/18.

The Committee is satisfied that all of Deloitte's non-audit work continues to be of a permitted nature, meaning that Deloitte is independent within the meaning of UK regulatory and professional requirements and that appropriate safeguards are in place to assure Deloitte's continued independence. In this regard, the Committee also closely monitors the developing regulatory regime relating to the use of auditors for non-audit work and is satisfied that the Company has complied and continues to comply with the regulations in force.

Audit and non-audit services provided during the year were approved by the Committee. An analysis of auditor remuneration is disclosed in note 7 to the consolidated financial statements.

### Audit and non-audit services

The Group has a policy on the provision by the external auditor of audit and non-audit services, which categorises such services between:

- Those services which the auditor is not permitted to provide;
- Those services which are acceptable for the auditor to provide and the provision of which has been pre-approved by the Committee; and
- Those services for which the specific approval of the Committee is required before the auditor is permitted to provide the service.

The policy defines the types of services falling under each category and sets out the criteria which need to be met and the internal approval mechanisms required to be completed prior to any engagement.

An analysis of all services provided by the external auditor is reviewed by the Committee on a quarterly basis.

During the year, the following examples were deemed to be pre-approved in accordance with the policy:

- Procedures in relation to bond issuance
- Assurance of certain KPIs for the Bigger Picture Review

### Effectiveness of external audit process

During the year, the effectiveness of the audit process and management's role within that process was assessed by the Committee, Group Finance team and other key internal stakeholders in the form of a questionnaire. The areas under review were:

- Quality, resources and scope of planning of the audit
- Objectivity, independence and transparency of the audit
- Identification of key accounting judgements, significant audit and accounting issues
- Level of technical knowledge and professional scepticism
- Understanding Sky as a business, its values and culture and challenges it faces
- The quality of planning and supervision of the Group audit
- Quality of reporting and communications to the Audit Committee

The responses to the assessment were discussed by the Committee and it was confirmed that Deloitte are performing as expected. Deloitte continue to demonstrate strengths in the majority of these areas. There were no significant findings from the assessment and the review confirmed that Deloitte continue to carry out an effective and robust external audit, including the supervision of the enlarged Group audit. The Committee also continues to be satisfied with the quality of challenge and scepticism of the external auditor.

The Committee therefore recommended to the Board that shareholder approval be sought to reappoint Deloitte as the external auditor and has also recommended that Deloitte be appointed auditor for the 2016/17 financial year.

#### **Audit firm and partner rotation**

The external auditor is required to rotate the audit partner responsible for the engagement every five years. The prior year audit partner rotated off the engagement following the conclusion of the 2014/15 audit and his successor is in place for the first time in 2015/16. In turn, the current audit partner will be required to rotate after the 2019/20 audit.

The regulatory regime relating to mandatory audit tendering has significantly changed in the UK and Europe. The Committee is closely monitoring these developments and taking into account that Deloitte has been the external auditor of the Company since June 2002, it expects to conduct an audit tender in advance of June 2020, which itself is in advance of 2023 by which the transitional rules in UK and EU regulation would require the Company to have performed a tender. The Committee has reviewed the timing of a future tender and feels that it is not currently in shareholders' interests, given the recent integration of Sky Deutschland and Sky Italia. The Committee will continue to review at least annually the appropriate timing of a future tender.

The Company and the Group confirms its compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 for the year to 30 June 2016.

## **Corporate Governance & Nominations Committee**

### **Chairman's overview**



We have had an active year. There have been a number of Board changes which have resulted in the size of the Board being reduced and the appointment of a new Chairman, following Nick Ferguson's retirement in April 2016. The appointment process is explained in this report.

This year's Board Evaluation was undertaken by JCA Group, an external company. The process was facilitated by Alice Perkins which involved her meeting with all Board members, the Company Secretary and members of the Senior Executive Management Team, through a series of one-to-one interviews. The results of the evaluation were very encouraging. The evaluation found that the Board and its Committees are operating effectively and that the Directors are making an effective contribution. A number of action points were agreed which are generally aimed at building on and improving existing processes.

The Board as a whole welcomes the opportunity to adapt to innovation and change and is actively progressing initiatives such as addressing gender balance on the Board, sourcing the right skills to complement our talented management team and creating robust succession plans to safeguard the Company's future performance.

There were three Committee meetings held during the year and after each Committee meeting the Chairman of the Committee reported to the Board on the key issues discussed during the meetings.

I would like to express my thanks to Nick Ferguson for his contribution to the work of the Committee during his Chairmanship. I would also like to thank Arthur Siskind and Dave Lewis who stepped down as members of the Committee during the year.

The Committee continues to comprise a majority of Non-Executive Directors in compliance with the Code.

**Andy Sukawaty**  
Committee Chairman

**Committee composition**  
Andy Sukawaty (Chairman)  
Martin Gilbert  
James Murdoch  
Matthieu Pigasse

### **Attendance at Committee meetings**

The Group CEO and General Counsel attend the meetings from time to time and the Company Secretary acts as Secretary to the Committee.



### Corporate Governance & Nominations Committee agenda

Focus for the Committee this year has centred on the following items:

- Board changes
- Board and Committee composition
- External Board evaluation
- Review of Non-Executive Director independence
- Review of Directors' conflicts of interest

The Committee's terms of reference are available on the Company's corporate website.

### Activities during the year

#### Board changes

The Committee keeps the Board's balance of skills, knowledge and experience and the length of service of individuals under constant review. At the conclusion of last year's AGM, David DeVoe, Danny Rimer and Arthur Siskind stepped down from the Board and John Nallen was appointed as a Non-Executive Director. It has been the desire of the Board for its size to be reduced when a suitable opportunity arose. After taking into consideration the existing mix of skills and experience on the Board, the Committee made a recommendation to the Board that it was now the right time for its size to be reduced. Following these changes the number of 21CF directors on the Board reduced from four to three and the total number of Board members reduced from 14 to 12.

During the year, Nick Ferguson indicated that he wished to stand down as Chairman, having ensured continuity while a new Group of Independent Non-Executive Directors ('Independent Directors') settled into their roles. Martin Gilbert, then Senior Independent Director, led the process to appoint a successor which is described below.

At the outset of the process James Murdoch advised Martin Gilbert that he would like to apply for the Chairman position and he was then excluded from playing any part in discussions on Chairman succession which followed.

Martin Gilbert briefed the Independent Directors who met as a Group and considered the Company's corporate governance, their responsibility to promote the success of the Company and the skills, capabilities and time commitment required of the next Chairman.

The Independent Directors noted that the Company had a strong Board composed of a majority of Independent Directors and that the Board had been chaired successfully by a 21CF affiliated director at various times in the past, including by James Murdoch himself. The Board also has strong Corporate Governance processes in place to deal with any potential conflict situations, which have been used effectively in the past, most recently during the proposal to acquire Sky Deutschland and Sky Italia.

The Independent Directors agreed that James Murdoch was a strong candidate to succeed Nick Ferguson with unique strengths, who had successfully Chaired the Company in the past. The appointment of an internal candidate who had worked very well with the Board and the Company's management team with extensive industry experience would ensure stability and continuity.

The Independent Directors unanimously agreed to recommend the appointment of James Murdoch as Chairman of the Company to the Committee. At the same time, it was concluded that the appointments of Martin Gilbert as Deputy Chairman and Andy Sukawaty as the Senior Independent Director would further strengthen the Company's corporate governance and provide independent points of contact for shareholders.

The Committee considered the deliberations of the Independent Directors and their recommendations. The Committee noted that the Company would not be in compliance with section A.3.1 of the UK Corporate Governance Code as he would not fulfil the Code's independence criteria but concluded that James Murdoch was the best candidate for the position and his appointment was in the best interests of the Company and its shareholders.

The Committee agreed that the appointment of Martin Gilbert as Deputy Chairman and Andy Sukawaty as the Senior Independent Director would further strengthen the Company's corporate governance and ensure that the interests of the independent shareholders are protected. The Committee recommended the appointments to the Board who unanimously approved the proposals.

Following Nick Ferguson's retirement there are currently 11 directors on the Board, of which six directors are deemed by the Board to be independent.

#### Committee composition

During the year, the Committee reviewed the composition of the Board Committees. On 4 November 2015, Arthur Siskind stepped down as a member of this Committee and James Murdoch was appointed in his place on 27 January 2016. Furthermore, Dave Lewis stepped down as a member of this Committee on 9 June 2016 and Matthieu Pigasse was appointed in his place. On 9 June 2016, Martin Gilbert stepped down as Chairman of the Audit Committee and he was replaced by Adine Grate. Following the retirement of Nick Ferguson as a Director on 30 April 2016, Andy Sukawaty was identified as a suitable successor as Chairman of this Committee and he was appointed on 9 June 2016.

#### Board evaluation

The approach and findings of this year's external facilitated board evaluation are detailed on pages 41 to 42.

#### Independence

During the year, all Non-Executive Directors were asked to complete questionnaires to enable the Committee to determine their independence. The Committee reviewed the questionnaires and recommended to the Board that there be no changes to the independent status of the current Independent Non-Executive Directors. The Non-Executive Directors who are considered by the Board to be independent are clearly identified on page 40.

As noted on page 40, James Murdoch, Chase Carey and John Nallen are not considered to be independent within the meaning of the Code. However, following the evaluation the Committee considers that each of these Directors continue to make a significant contribution to Board and Committee discussions.

#### Directors' conflicts

The Committee reviewed the Board's conflicts during the financial year and concluded that Directors' conflicts had been appropriately authorised and that the process for authorisation was operating effectively. The Committee and the Board will continue to monitor and review potential conflicts of interest and take action to mitigate them as necessary.

## Bigger Picture Committee

### Chairman's overview



I am pleased to report that there has been significant progress across the Bigger Picture. Highlights include integrating our responsible business approach across the Group, the continued success of Team Sky and our support for cycling and the impact our opportunities across the Group are having to unlock potential in young people.

Sky's commitment to sustainability has been reflected in a number of leading investor indices during the year, including the Dow Jones Sustainability Index, FTSE4Good, Carbon Disclosure Project's 'A' List and Newsweek's Green Rankings.

The Committee believes that the focus and scale of the Bigger Picture continues to make a significant contribution to Sky's ability to build a better business for the long term. The Committee looks forward to further development of the Bigger Picture.

There were two Committee meetings during the year and after each meeting I reported to the Board on the key issues discussed.

Progress against the Bigger Picture strategy is detailed at [sky.com/biggerpicture](http://sky.com/biggerpicture).

**James Murdoch**  
Committee Chairman

### Composition of the Committee

James Murdoch (Chairman)  
Tracy Clarke  
Dave Lewis

### Attendance at Committee meetings

The Group CEO, Group COO & CFO, senior executives, representatives from Corporate Affairs and the Bigger Picture team attend meetings at the request of the Chairman. The Deputy Company Secretary acts as Secretary to the Committee.

### Bigger Picture Committee agenda

Focus for the year has centred on the following items:

- The development and integration of our responsible business approach across the Group, including a review of Sky's data governance approach
- A review of progress on unlocking potential in young people across the Group
- Progress as detailed in Sky's Bigger Picture reporting
- Future development of the Bigger Picture strategy

The Committee's terms of reference are available on the Company's corporate website.

### Activities during the year

The Committee oversaw a number of developments in relation to the Bigger Picture, including the progress being made on embedding the Group responsible business strategy to ensure consistency of approach and reporting. The Committee also conducted a review of Sky's progress on responsible sourcing and human rights, data protection and accessibility, child safety and the environment.

Sky is committed to keeping customer information safe and secure. The Committee noted Sky's expansion of existing approaches to data protection and privacy across the Group and Sky's commitment to continual improvement in these areas, as the risks to our business and customers evolve.

The Committee is proud of Sky's continued successes in supporting young people, with more than 157,700 young people having taken part in our initiatives.

In the UK and Ireland, Sky Academy uses the power of TV, creativity and sport to unlock potential in young people. The Committee oversaw the progress in building their skills and experience.

Sky Sports Living for Sport is inspiring and building skills in a third of secondary schools across the UK and Ireland, reaching over 110,000 young people. Sky Academy Careers Lab at Sky's West London campus and pop ups in Dublin and Livingstone, saw over 6,000 young people aged 16–19 visit Sky to gain career insights and build employability skills. The Sky Academy Skills Studios in London and Livingstone have provided opportunities for over 25,000 young people this year. The Committee's view is that Sky Academy experiences should provide insight into the diversity of roles in the media. Sky Academy Starting Out is playing a significant role in this, having doubled the number of career opportunities available for young people within Sky in the last three years. More than 1,000 young people took part in our apprenticeship, graduate, placement and work experience programmes in 2015/16 and more than 10% of employees participated in Sky Academy through volunteering.

The Committee is pleased to note the progress being made in Italy to support young people through art, TV and sport, with more than 10,000 young people taking part this year (2015: 2,300). Sky TG24 for Schools, which links with Sky Italia's 24 hour news channel, has expanded its opportunities to 14–19 year olds this year and the impact of Artevisione Arts scholarships has been further enhanced with the introduction of mentoring.

Sky Foundation in Germany has supported more than 5,000 young people this year, helping them to develop skills and lead an active life. By partnering with charities across the country, Sky Foundation brings opportunities for young people to join year-round sports programmes including swimming and football. Sky Deutschland employees continue to support the Sky Foundation through volunteering and fundraising.

Through its review of the Bigger Picture reporting, the Committee noted the overall progress against Sky's commitments. The recommendations the Committee made to improve the communication of progress have been incorporated for the 2015/16 year.

Overall, the Committee continued to note the positive economic, social and environmental contribution of Sky and looks forward to areas of opportunity for further developing Sky's impact through the Bigger Picture. For more information about Sky's approach and progress over the year, go to [sky.com/biggerpicture](http://sky.com/biggerpicture)

# Directors' remuneration report

## Annual statement from the Chairman



### Dear Shareholder

On behalf of the Board I am pleased to present our Directors' Remuneration Report for the year ended 30 June 2016.

### Our remuneration policy and principles

Our remuneration policy directly links the pay of our Executive Directors to the achievement of stretching financial and operating performance targets and the quantum of pay is highly correlated with returns for our shareholders. We achieve this through four key principles:

- Maintaining lower levels of fixed pay and a higher ratio of variable to fixed pay compared to the market
- Setting stretching targets against which maximum annual bonus is paid. There is no set threshold for gradation of bonus payout for below target performance
- Awarding shares in absolute numbers, rather than a percentage of salary, so that our Executive Directors benefit when the share price increases but are exposed if the share price declines
- Providing the opportunity to reinvest earned bonus into a performance based share scheme

These principles ensure strong alignment to the interests of our shareholders. The continuity of our remuneration structure over the last seven years has helped to retain and maintain the focus of the senior team and consequentially to deliver outstanding value to our shareholders. Over the last seven years Sky's Total Shareholder Return (TSR) growth has outperformed the FTSE 100 in every year. Over this period cumulative growth has been 117% compared to the FTSE 100 at 70% - a relative outperformance of 67% - and this year shareholders will benefit from the 12th consecutive year of increased dividends.

There are four key drivers of performance that underpin the sustainability and success of our business, and these have been reflected in performance targets for our bonus and Long Term Incentive Plans:

- Revenue growth: The key measure of how the Group is delivering on its overall strategy
- Paid-for products growth: Shows progress against our multi-product strategy
- Adjusted operating profit: Focuses on our ability to manage costs and productivity
- Adjusted operating cash flow: Ensuring that profit is successfully converted into cash able to be distributed or reinvested

We also measure Earnings Per Share growth and relative TSR as key measures of alignment with the interests of our shareholders.

### Context and business performance

This has been a year of excellent performance across all of our markets. The UK and Ireland has delivered another year of significant growth, exceeding revenue of £8 billion and 40 million products for the first time. We closed the year in Germany with our first ever full year profit and in Italy we grew our customer base to its highest level in three years. We have met or exceeded all our stretching targets for the Group across our key drivers of performance, by an average 7%:

- Revenue up 7% to £11,965 million
- 3.3 million new paid for products, taking our total product base to over 57 million
- Operating profit up 12% to £1,558 million
- Operating cash flow £1,291 million, ahead of stretch target

At the same time we have made significant progress against our strategy and our plans for continued strong future growth. We have developed a portfolio that enables us to offer something for every consumer in the market, from our new premium Sky Q to our streaming platforms NOW TV and Sky Online. This year we have taken significant steps as we seek to constantly improve our customer offer, from securing the most important rights and producing more and more of our own shows, to launching Sky Box Sets in every market and investing in the very best customer service. The benefits of our acquisitions of Sky Deutschland and Sky Italia are gaining momentum. Taken together it has been a period of significant progress and achievement. In our second year of the enlarged Group the deal is ahead of our financial plans, is accretive to earnings and we are well placed to achieve our £200 million synergy target. We are building a bigger and stronger business for the long term for the benefit of our shareholders and all our stakeholders.

### Pay for performance outcomes

Taking into account the significant results of the year and having met or exceeded all our stretch targets, the Committee agreed the following outcomes:

- Base salaries for the Group CEO and Group COO & CFO were increased by 2.5% on 1 July 2016. This compares to increases of between 2% and 10% for our employees based on performance
- Annual bonus payments made in full at 200% of base salary for the CEO and 150% for the Group COO & CFO
- Matching shares under the 2013 co-investment plan vested in full, with 'like for like' earnings growth of 28% over three years

As mentioned in my annual statement for 2015, measurement of the performance outcome for the 2013 co-investment plan has been restated for the UK and Ireland only to avoid the distortive effect of the acquisition of Sky in Germany and Sky in Italy in November 2014.

Awards under the Long Term Incentive Plan are made annually but vest only every two years. There is no vesting this year. Share grants of 600,000 to the Group CEO and 350,000 to the Group COO & CFO were awarded for the 2016-2019 cycle in line with the level of last year's grant.

### Decisions made during the year

Last year for the first time we made retrospective disclosure of the targets for the annual bonus and LTIP vesting. The Committee discussed its position again this year and we remain of the firm view that the early disclosure of specific targets continues to be commercially sensitive.

We operate in a highly competitive market both in acquiring customers and in particular for bidding for key rights in competition with a very small number of large and well-resourced competitors. We believe strongly that early disclosure of targets would provide a material insight on forthcoming operating plans to our competitors and therefore would be to the detriment of our shareholders. A number of our direct competitors either do not disclose their targets or they are subsumed into a much larger Group target.

Our commitment remains to make retrospective disclosure when the targets are no longer commercially sensitive. We anticipate this to be two years after the end of the performance period. As a result we have disclosed the targets for the 2014 annual bonus on page 60. There was no LTIP vesting in 2014.

I also made a commitment last year that the Committee would review its position on clawback. We have done this and decided to introduce a clawback provision for the annual bonus, Co-Investment and Long Term Incentive Plans in cases of gross misconduct and for misstatement of results. This will apply to share awards granted from July 2016 as well as bonus awards for the next performance year.

As the business has made significant progress against our strategy for growth the Remuneration Committee agreed it was the right time to review the performance measures for the bonus and Long Term Incentive Plan to ensure continued alignment to our key drivers of performance.

The Committee decided to replace paid-for products growth with revenue growth, which we believe is now a more relevant indicator of success against our broader growth strategy. Revenue growth captures AdSmart, third-party distribution revenue and Sky Store, none of which are captured in the narrower measure of product growth.

### Activity in the coming year

We regularly monitor our policy to ensure it continues to support the interests of our shareholders and to reward our Executive Directors appropriately. Whilst this policy has been extremely effective, has commanded high levels of support at our AGM's and has delivered exceptional returns for shareholders, we will undertake a detailed review during the next 12 months and will seek the views of our shareholders prior to submission of a new Remuneration Policy for approval at the 2017 AGM.

#### Tracy Clarke

Committee Chairman

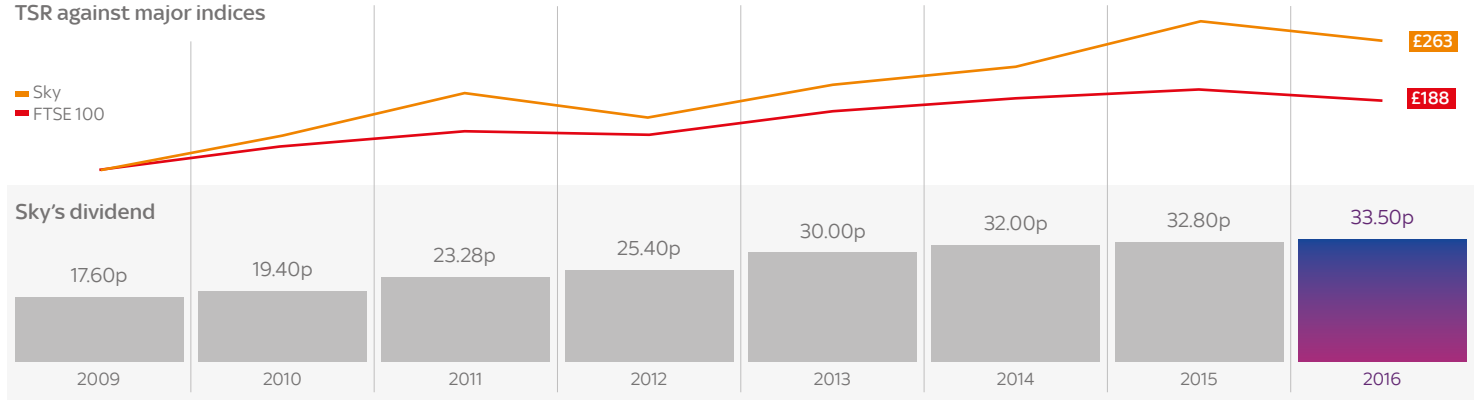
# Directors' remuneration report

## Our performance at a glance

The Committee follows a policy of maintaining lower levels of fixed pay relative to the market. We are confident that the structure of a high ratio of variable to fixed pay continues to provide a strong link between pay and performance and delivers strong returns for our shareholders.

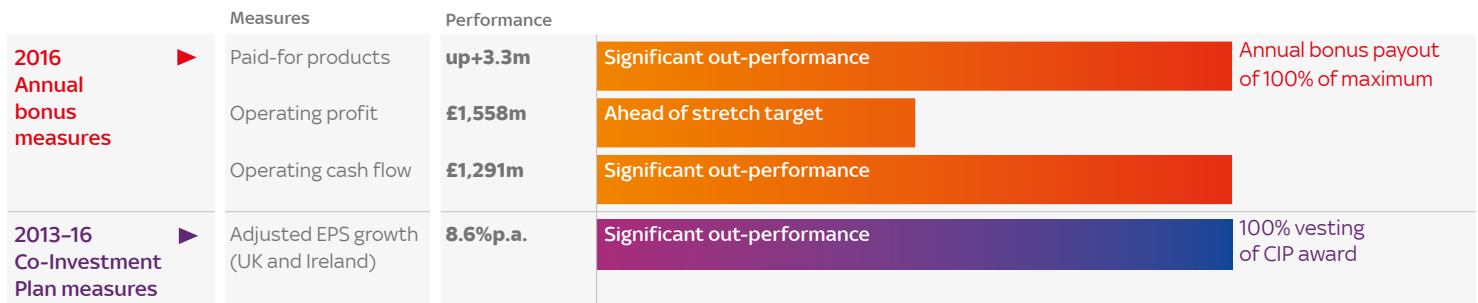
## Strong alignment with shareholders is critical

Over the last seven financial years, Sky has outperformed the FTSE 100 by 75% and dividends have increased by 86%.



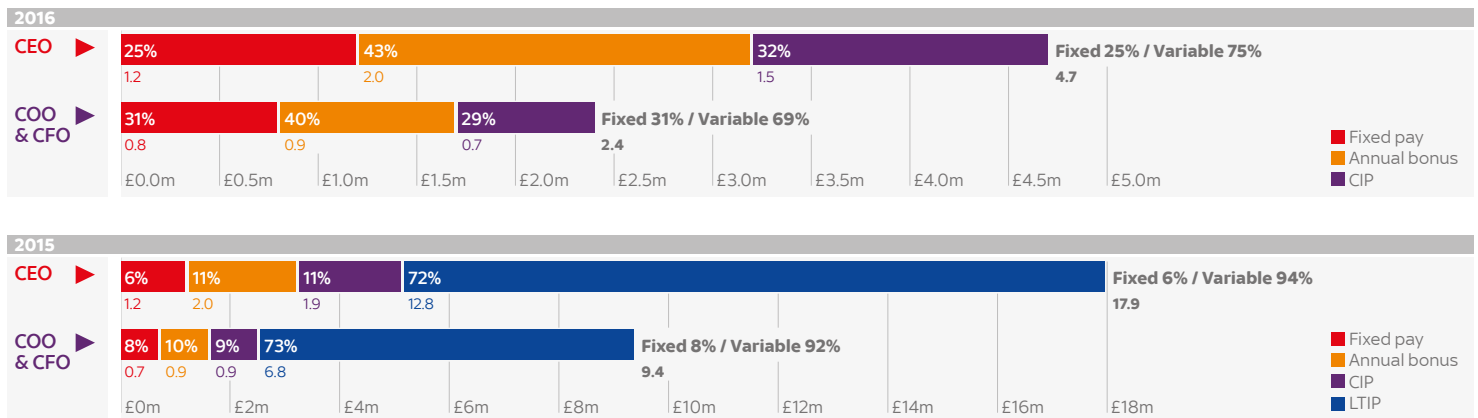
## Performance against our key measures has been strong

We are firm advocates of 'pay for performance' and these measures have been carefully chosen to align executive and shareholder interests.



## Our policy is to pay lower fixed pay with high variable pay

We believe that this system offers the fairest outcome for both our executives and our shareholders.



The charts show single figure total remuneration for 2015 and 2016. See page 58 for further details.

# Directors' remuneration report

## Our remuneration policy

This section provides a summary of the Directors' Remuneration Policy that was approved by shareholders at the 2014 AGM and which the Committee intends will be effective until the 2017 AGM. The full policy is available on our website at [sky.com/corporate/investors/annual-report-2014](http://sky.com/corporate/investors/annual-report-2014)

### Executive Directors

Element and link to performance	Summary of current policy	Changes in the year ahead
<p><b>Base salary</b> attracts and retains Executive Directors taking account of personal contribution and business performance.</p>	<p>Reviewed annually, which takes into account factors such as market pay levels for the role, individual performance and experience, size and scope of the role and relativity compared to other roles in the business.</p> <p>This is in line with our policy for all employees.</p>	<p>CEO: £1,039,650 (2.5% increase) COO &amp; CFO: £654,565 (2.5% increase).</p>
<p><b>Pension and benefits</b> are part of a competitive total remuneration package.</p>	<p>Employer contributions to the pension scheme or an equivalent cash supplement (or a combination thereof) are around 16% of base salary.</p> <p>Executive Directors are entitled to a range of benefits including, but not limited to, private medical insurance, life assurance, company car allowance and relocation allowances.</p>	<p>No change.</p>
<p><b>Annual bonus</b> drives and rewards the delivery of stretching annual performance goals aligned with the Company's overall business strategy.</p>	<p>Maximum opportunity is 200% of base salary, and is payable for the achievement of operational and financial stretch objectives:</p> <ul style="list-style-type: none"> <li>• Paid-for products growth (33%)</li> <li>• Operating profit (33%)</li> <li>• Operating cash flow (33%)</li> </ul> <p>The Committee believes the concept of threshold, target and maximum compromises our focus on delivery and drive for growth so we set one clear and ambitious stretch target for each performance measure every year.</p> <p>The Committee exercises its judgement on the level of bonus payable for outcomes short of maximum and in exceptional circumstances will use its judgement to adjust bonus outcomes up or down to ensure alignment of pay with performance and with shareholder interests, within the policy maximum.</p>	<p>We have introduced clawback for a period of two years after grant of award in cases of gross misconduct and misstatement of results.</p> <p>We are replacing paid-for products growth with revenue growth as a performance measure.</p>
<p><b>Co-Investment Plan (CIP)</b> encourages personal investment and shareholder alignment; rewards long-term focus and performance achievement.</p>	<p>Executive Directors may voluntarily invest up to half of their earned annual bonus in the Company's shares.</p> <p>These investment shares are matched on a gross basis by up to 1.5 shares for every 1 share invested based on EPS performance over a three-year period.</p>	<p>We have introduced clawback for a period of two years after vesting in cases of gross misconduct and misstatement of results.</p>
<p><b>Long Term Incentive Plan (LTIP)</b> rewards longer-term value creation and aligns Executive Directors' interests with those of shareholders.</p>	<p>A fixed number of shares are granted annually. Awards are made in Year 1 and in Year 2 with vesting of both awards at the end of Year 3, based on stretching performance over the three-year period. This means that vesting of awards occurs every other year, with zero vesting in between.</p> <p>Typical annual awards to the CEO by the Committee are 600,000 shares, with a maximum award level of 900,000 granted in exceptional circumstances.</p> <p>26% of the award vests if threshold performance is met.</p> <p>Performance measures are:</p> <ul style="list-style-type: none"> <li>• TSR relative to the FTSE 100 (30%)</li> <li>• Operational measures (70% - currently EPS growth, operating cash flow and revenue growth)</li> </ul> <p>Awards are subject to malus.</p>	

## Remuneration of the Chairman and Non-Executive Directors

The table below summarises the main elements of remuneration for Non-Executive Directors:

Element and link to performance	Summary of current policy	Changes in the year ahead
<p><b>Fees</b> reflect individual responsibilities and membership of Board Committees. Attract Non-Executive Directors with the skills and experience required to oversee the implementation of strategy.</p>	<p>Reviewed annually, with the Chairman's fees determined by the Corporate Governance and Nominations Committee. Fees are as follows:</p> <p>Chairman (all inclusive) – £400,000</p> <p>Deputy Chairman – £30,000</p> <p>Board member (base fee) – £63,000</p> <p>Additional fees for additional responsibilities:</p> <p>Senior Independent Director – £40,000</p> <p>Chairman of Committee – £25,000</p> <p>Member of Committee – £10,000</p> <p>Non-Executive Directors can elect to receive a portion of their fees in the Company's shares, which are purchased on a monthly basis. Directors who are deemed to be affiliated with 21st Century Fox are not permitted to take part in this facility.</p>	<p>Chairman (all inclusive) – £400,000</p> <p>Board member (base fee) – £64,600 (2.5% increase).</p>
<p><b>Benefits</b> may be provided for business purposes.</p>	<p>Benefits for business purposes may be provided, such as the provision of a car to travel to/from meetings. Non-Executive Directors are eligible to receive a Sky subscription package, but are not eligible to join Sky's pension plan.</p>	<p>No change.</p>

### Additional policy information

#### Shareholder alignment

The Committee considers shareholders' views as they are received during the year, at the AGM, through shareholder meetings and through correspondence.

We will continue to engage with our major shareholders and welcome feedback at any time. Should we propose to make any major changes to the remuneration structure we will seek the views of our major shareholders in advance.

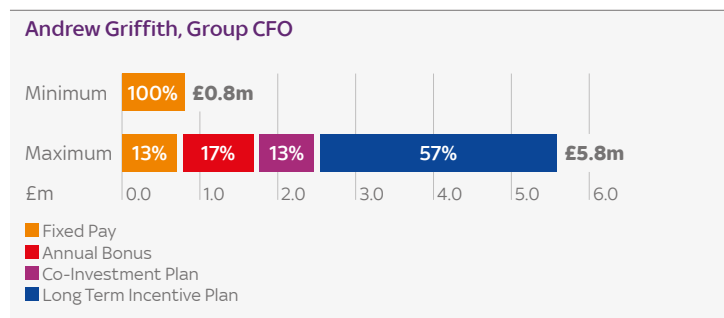
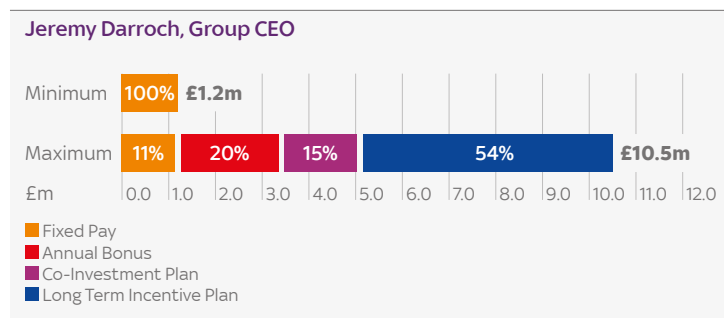
### Pay scenario analysis (updated for 2016)

The charts below provide an estimate of the awards that could be received by our Executive Directors under the remuneration policy effective from the 2014 AGM showing:

- Minimum: base salary as at 1 July 2016, plus pension and benefits as per the table on page 58 (fixed pay)
- Maximum: fixed pay plus maximum awards for annual bonus (200% of base salary for the Group CEO and 150% for the Group COO & CFO)
- Co-Investment Plan (maximum deferral of 50% of the annual bonus into investment shares and full vesting of 1.5x matching shares) and Long Term Incentive Plan (600,000 shares for the Group CEO and 350,000 shares for the Group COO & CFO)

The Committee sets one clear and ambitious stretch target for each performance measure. If stretch targets are met then 100% of maximum for the bonus is paid and the shares awarded under the LTIP and CIP will vest in full. There is no additional payment for achievement over the stretch goals.

Awards under the LTIP are made annually but vesting occurs only every two years. The impact of this vesting cycle on actual realised pay is shown in the seven-year single figure remuneration table for the Group CEO on page 59.



Scenarios are modelled assuming a share price of £9.40 which is the average share price over the period 1 April to 30 June 2016 with no allowance for share price appreciation.

### Shareholding guidelines and share ownership

The Committee recognises the importance of aligning Executive Directors' and shareholders interests through executives building up a significant shareholding in the Company. The shareholding requirements are 3x base salary for the Group CEO and 2x base salary for the Group COO & CFO. Executive Directors are required to build up their shareholding to the required levels within five years. There are no shareholding guidelines for Independent Non-Executive Directors but they are able to participate in a monthly share purchase plan. See pages 60 to 61 for further details on Directors' interests.

### How the Remuneration Committee exercises discretion

The Committee retains discretion relating to annual bonus, LTIP and CIP in line with their rules and according to the remuneration policy.

These include but are not limited to:

- Timing of a grant of an award/payment
- Size of an award/bonus payment up to the maximums indicated in the policy table
- Determination of vesting and the application of malus for the LTIP, and clawback for the annual bonus, Co-Investment Plan and LTIP
- Dealing with a change of control
- Determination of treatment of leavers based on the rules of the plan and the leaver policy
- Annual review of performance measures and weighting and targets of the plan from year to year

Any use of discretion within the policy framework will be explained in the Annual Remuneration Implementation Report. There may be exceptional circumstances under which the Committee may use discretion or judgement in the interests of the business and shareholders. These exceptional circumstances may be the subject of discussion with the Company's major shareholders.

### External appointments

External appointments for Executive Directors are considered by the Company's Corporate Governance & Nominations Committee to ensure they would not cause a conflict of interest and are then approved by the Chairman on behalf of the Board. It is the Company's policy that remuneration earned from such appointments may be retained by the individual.

Jeremy Darroch became a Non-Executive Director of Burberry Group plc in February 2014, and serves as a member of their Audit, Remuneration and Nomination Committees. For the period 1 July 2015 to 30 June 2016, Jeremy earned £80,000 in this role.

Andrew Griffith became a Non-Executive Director of Just Eat plc in March 2014, and serves as Senior Independent Non-Executive Director, Chairman of the Audit Committee and as a member of the Remuneration and Nomination Committees. For the period 1 July 2015 to 30 June 2016, Andrew earned £62,500 in this role.



# Directors' remuneration report

## Annual remuneration implementation report

This section sets out how our remuneration policy was implemented during the year ended 30 June 2016 and how it will be implemented for the coming year. It also sets out the link between Company performance and Executive Directors' remuneration, the context in which our policy operates, details on our Executive Directors' shareholdings and the general governance of Directors' remuneration. The remuneration policy is summarised on pages 52 to 54 and available to read in full in our 2014 Annual Report which can be accessed via our corporate website at [sky.com/corporate](http://sky.com/corporate)

### What are our variable pay outcomes for this year?

This has been a year of excellent performance across all of our markets. We have met or exceeded all of our stretching targets for the Group across our key areas for growth and these are reflected in the outcomes for our variable pay plans.

#### Annual bonus for 2016 performance

The annual bonus drives the achievement of annual financial and operational business goals. The plan for 2016 for Executive Directors and senior executives was based on three equally weighted measures which were identified by the Committee as being key indicators of performance driving growth for our business and returns to our shareholders:

- Paid-for products growth
- Adjusted operating profit
- Adjusted operating cash flow

We believe the concept of threshold, target and maximum performance would compromise the drive for growth so the Committee sets one clear stretch target for each performance measure each year, after careful consideration of the business plan and of consensus analyst forecasts.

The table in the next column sets out the Committee's assessment of performance versus the three measures for the last performance period. The Committee sets stretching targets which must be delivered to achieve the business plan and for the Executive Directors to receive the maximum bonus. There are no payments above maximum for performance above these stretch targets.

The Committee will use its judgement to assess the level of bonus if a stretch target is not met, taking into account personal performance, the performance of the other measures, the underlying performance of the business, and other factors which the Committee considers to be material to the results achieved. Payments are earned in direct correlation to performance achieved.

#### Annual bonus metrics

Performance measure	Weighting	Performance	Achievement against performance measures
Paid-for products growth	33%	+3.3m	Significant out-performance
Operating profit	33%	£1,558m	Ahead of stretch target
Operating cash flow	33%	£1,291m	Significant out-performance

As a result of this excellent performance the Remuneration Committee recommended that the maximum bonus awards of 200% and 150% of base salary be awarded to the Group CEO and Group COO & CFO respectively for this performance year.

The Committee believes strongly that early disclosure of specific targets would offer a material insight and competitive advantage for our competitors and therefore would be to the detriment of our shareholders.

Our commitment remains to make retrospective disclosure when the targets are no longer commercially sensitive. We anticipate this to be two years after the end of the performance period.

#### Vesting of shares under the Co-Investment Plan (CIP) 2013–2016

Under the terms of the CIP offered on 28 August 2013 for the performance period 1 July 2013 to 30 June 2016, Executive Directors voluntarily deferred 50% of their earned 2013 bonus into investment shares which were then matched by the Company up to 1.5 times the gross equivalent of their investment.

The table below shows the performance conditions for vesting of the matching shares:

EPS growth performance (annual average growth over three-year term)	Match awarded (number of matching shares awarded per investment share*)
Less than RPI +3%	0.0
RPI +3%	1.0
RPI +4%	1.25
RPI +5%	1.5
More than RPI +5%	1.5
Straight-line interpolation between points	

\*ie. on equivalent gross basis

The average adjusted UK and Ireland basic EPS growth rate of 9% per year over the three-year period exceeds the threshold for maximum vesting of 6.8% p.a. The Committee has agreed that the matching shares under the 2013 CIP will vest in full on 28 August 2016.

**Executive Long Term Incentive Plan 2014–2017**

The next vesting of awards made under the terms of the LTIP will occur on 25 July 2017 for the three-year performance period 1 July 2014 to 30 June 2017. This will include vesting of awards made in 2014 and 2015. Awards made in 2012 and 2013 vested in July 2015. There is no LTIP vesting in 2016.

**What share-based incentive awards did we make in the year?**

	No. of shares awarded	Grant date	Face value on date of grant	Performance period	Vesting date	Minimum % of shares that can vest	Maximum % of shares that can vest
<b>Long Term Incentive Plan</b>							
Jeremy Darroch	600,000	29.07.15	£6,792,000 <sup>1</sup>	01.07.14 – 30.06.17	25.07.17	0%	100%
Andrew Griffith	350,000	29.07.15	£3,962,000 <sup>1</sup>	01.07.14 – 30.06.17	25.07.17	0%	100%
<b>Co-Investment Plan</b>							
Jeremy Darroch	141,758	28.08.15	£1,477,118 <sup>2</sup>	01.07.15 – 30.06.18	28.08.18	0%	100%
Andrew Griffith	66,938	28.08.15	£697,494 <sup>2</sup>	01.07.15 – 30.06.18	28.08.18	0%	100%

1 Market price at date of LTIP award was £11.32 on 29 July 2015.

2 Market price at date of CIP matching award was £10.42 on 28 August 2015.

**Performance conditions for the Long Term Incentive Plan**

Awards made in July 2015 were 'Year 2' nil-cost awards. That is, they relate to the three-year performance period beginning on 1 July 2014 and ending on 30 June 2017, and are subject to the following performance conditions:

**1. Operational targets – 70% of the award**

There are three equally weighted operational performance measures, each of which is a key indicator of Sky's continued success:

- EPS growth
- Operating cash flow
- Revenue growth

The Committee will make retrospective disclosure of the targets for operating cash flow and revenue growth when they are deemed to be no longer commercially sensitive. We anticipate this to be two years after the end of the performance period. This means that we will review disclosure of performance targets in our 2019 implementation report, with a view to publishing unless the Committee believes they are still commercially sensitive in the context of the market in which the company operates.

- For EPS, two points are awarded for growth of RPI +3% per year, with the maximum ten points awarded for RPI +5% per year or more.
- For operating cash flow and revenue growth, one point is awarded for 75% achievement of 'target' on a sliding scale up to ten points for 105% or more.
- One point equates to 10% of the award vesting, with maximum vesting for 21 points or more, vesting on a straight-line basis between these points. There is no additional award for achievement above 21 points.
- If the minimum range is met each year for all measures, 26% of the shares vest.
- The Committee sets a high threshold vesting level in line with our policy of rewarding success not failure. Maximum vesting is not achievable if performance is below threshold for any one measure.
- To earn the minimum of one point on any one of these measures requires the achievement of 75% of target. Missing two targets would represent a significant and disproportionate reduction in total compensation.

Annual performance measures are shown in further detail in the table below:

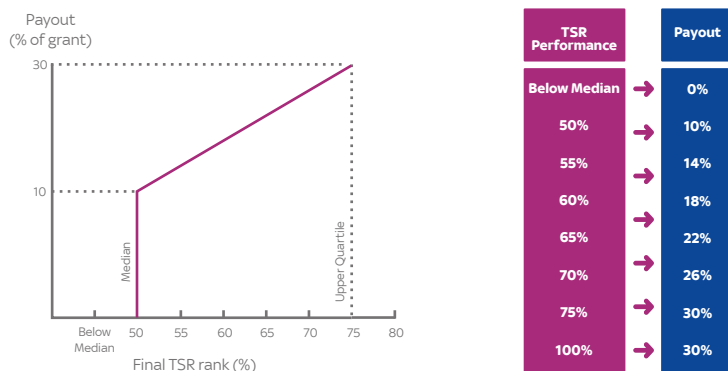
Average EPS growth		Operating cash flow		Revenue growth	
Performance achieved	Points awarded	Performance achieved (% of target)	Points awarded	Performance achieved (% of target)	Points awarded
RPI +5% p.a.	10	105% or more	10	105% or more	10
RPI +4.5% p.a.	8	100%	8	100%	8
RPI +4% p.a.	6	95%	6	95%	6
RPI +3.5% p.a.	4	90%	4	90%	4
RPI +3% p.a.	2	85%	2	85%	2
Less than RPI +3% p.a.	0	75%	1	75%	1
		Less than 75%	0	Less than 75%	0

The top end of the EPS growth range was set for awards in 2015 at RPI +5% p.a. This is equivalent to absolute growth in earnings of 26% over three years if RPI is 3% a year. This level of growth in earnings was set at a level which exceeded consensus research analysts' estimates.

## 2. Relative TSR performance – 30% of the award

The Company's TSR performance is measured relative to the TSR of the constituents of the FTSE 100. If the Company's TSR performance is below median, the TSR element of the award lapses in full. For median performance, one-third of the shares subject to the TSR condition may vest, with all the shares vesting for upper quartile performance. Vesting is on a straight-line basis, between these points as shown below.

### TSR Vesting Schedule



TSR calculations are conducted independently by Willis Towers Watson, advisors to the Committee.

## Performance conditions for the Co-Investment Plan

CIP awards made in 2015 are subject to the performance conditions set out in the table below.

EPS growth performance (annual average growth over three-year term)	Match awarded (number of matching shares awarded per investment share*)
Less than RPI +3%	0.0
RPI +3%	1.0
RPI +4%	1.25
RPI +5%	1.5
More than RPI +5%	1.5

Straight-line interpolation between points

\* ie. on equivalent gross basis

## What did we pay our Executive Directors during the year?

The table below sets out total remuneration received by the Executive Directors for the financial year ended 30 June 2016 and the prior year ended 30 June 2015. The vesting pattern of awards under the LTIP is biennial; shares vest every other year over a three-year performance period. This means that every other year no payment is due as there is no vesting of awards. The following year, assuming performance conditions are met, there will be a payment which covers the equivalent of two years vesting. 2015 was a year in which the LTIPs awarded for the performance period 1 July 2012 to 30 June 2015 vested. 2016 is a non-vesting year, the single figure is therefore lower than 2015.

### Single Figure for Executive Directors' Total Remuneration (audited)

£	Salary <sup>1</sup>		Taxable Benefits <sup>2</sup>		Pension <sup>3</sup>		Bonus <sup>4</sup>		Long Term Incentive Plan <sup>5</sup>		Co-Investment Plan <sup>6</sup>		Total	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Jeremy Darroch	984,750	1,014,293	18,607	19,219	147,814	152,191	1,969,500	2,028,586	12,834,000	n/a	1,918,833	1,530,915	17,873,503	4,745,204
Andrew Griffith	620,000	638,600	16,115	23,468	94,755	95,483	930,000	957,900	6,844,800	n/a	882,709	698,238	9,388,379	2,413,689

1 Executive Directors' salaries were increased on 1 July 2015 by 3.0% for the Group CEO and Group COO & CFO. The average increase for employees at that time was 2.5%, rising to 3.5% for those earning less than £31,000 per year, with a range of 2% to 10% for performance, promotions and market adjustments.

2 Taxable benefits include company car or car allowance and healthcare, and provision of tax advice for Andrew Griffith.

3 Pension comprises a cash allowance in lieu of company contributions.

4 Bonus shows the full amount earned shortly after year end in which the performance measures applied, including amounts deferred through the CIP. The payout for the 2015 bonus was 200% of base salary for the Group CEO and 150% for the Group COO & CFO. The figures for 2016 are 200% for the Group CEO and 150% for the Group COO & CFO. The Executive Directors deferred 50% of their bonus into shares through the CIP in 2015 and it is anticipated they will do so for 2016.

5 Long Term Incentive Plan shows the market value of the awards vested immediately following the end of the relevant performance period. The figure for 2015 is for LTIP shares which vested on 29 July 2015 at a share price of £11.50. Previously the value of these shares was estimated using the average share price over the period 1 April to 30 June 2015 of £10.59. No LTIP shares vested for the performance period ended 30 June 2016.

6 Co-Investment Plan shows the market value of the matching shares that vested on 28 August 2015 with a share price of £10.42. Previously the value of these shares was estimated using the average share price over the period 1 April to 30 June 2015 of £10.59. It also shows the estimated value of matching shares that are due to vest on 28 August 2016, using the average share price over the period 1 April to 30 June 2016 of £9.40.

### Percentage change in Group CEO's remuneration 1 July 2015 to 30 June 2016

The table below shows the percentage change in Group CEO remuneration from 1 July 2015 to 30 June 2016 compared to the average change for all employees.

	Group CEO % change	All employees % change
Base Salary <sup>1</sup>	3.0%	3.5% employees earning less than £31,000, 2.5% above £31,000
Taxable Benefits	3.3%	0%
Annual Bonus	3.0%	4.4%

1 Employees were awarded up to 10% for outstanding performance, promotions and market adjustments.

### Relative importance of pay spend

The table below shows total employee costs and dividend payments to shareholders for 2015 and 2016.

	2015 (£m)	2016 (£m)
Total employee costs	1,334	1,514 <sup>1</sup>
Dividend payments	549	564

1 Group total including Germany and Italy.

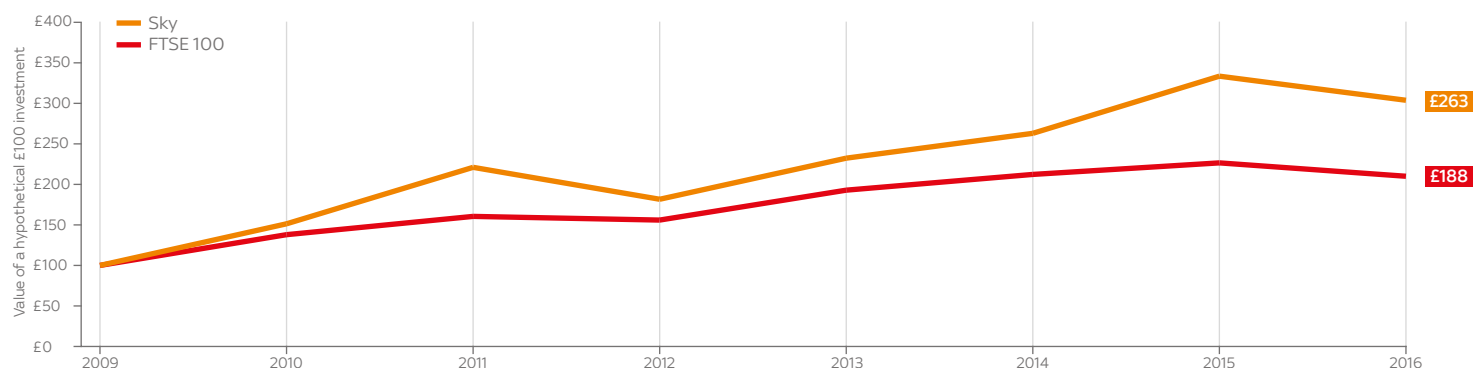
## How is the pay of our Group CEO linked to Sky's performance?

### TSR performance

The graph below shows the Company's TSR for the seven years to 30 June 2016, measured as the value of a £100 holding in ordinary shares at the start of the period. The performance is shown relative to the FTSE 100, which represents the broad market index against which the Company's shares are traded.

TSR is a measure of the returns that a company has provided for its shareholders, reflecting share price movements and assuming reinvestment of dividends. Data is averaged over three months at the end of each financial year.

### TSR against major indices



### Group CEO's remuneration

The table below provides a summary of the total remuneration for the Group CEO over the past seven years including bonus payout, LTIP and CIP vesting levels. The table highlights the unique structure of our remuneration policy, in which vesting of LTIP shares occurs every two years rather than the customary 12-month cycle. As our LTIP awards are made as a fixed number, the realised value is purely reflective of delivery against performance measures and any share price growth over this period, keeping it aligned to shareholders' interests.

It should be noted that total remuneration for 2013 includes vesting of the one-off additional LTIP award of 300,000 shares made in 2011 at the time of the possible News Corporation bid. The average annual total remuneration paid to the Group CEO over this seven-year period, excluding this one-off award, is £8,626,088.

	2010	2011	2012	2013	2014	2015	2016
Single figure of total remuneration	2,678,744	11,133,554	4,550,037 <sup>1</sup>	17,026,982 <sup>2</sup>	4,879,590	17,873,503 <sup>3</sup>	4,745,204 <sup>4</sup>
Annual Bonus payout against maximum opportunity %	100	100	100	97.5	100	100	100
LTIP vesting rates against maximum opportunity %	n/a	83	n/a	100	n/a	93	n/a
CIP vesting rates against maximum opportunity %	n/a	n/a	100	100	100	100	100

1 Includes first year of vesting of CIP introduced in 2010.

2 Includes vesting of the one-off additional LTIP award of 300,000 shares made in 2011 at the time of the possible News Corporation bid.

3 Includes valuation of LTIP shares which vested on 29 July 2015 with share price of £11.50 and CIP matching shares which vested on 28 August 2015 at £10.42. Both previously reported using the average share price over the period 1 April to 30 June 2015 of £10.59.

4 Includes valuation of CIP matching shares due to vest on 28 August 2016, using the average share price over the period 1 April to 30 June 2016 of £9.40.

## Disclosure of Performance Targets for 2014

The Committee has discussed at length its approach to disclosure of performance targets. Whilst maintaining its position that early disclosure of targets would be commercially detrimental because of the highly competitive nature of the market in which it operates it considers that performance targets for the 2014 annual bonus are no longer commercially sensitive.

In setting the targets the Committee gave careful consideration to the business plan and to the research analyst consensus forecasts at the time. The targets and performance for the 2014 annual bonus are shown in the table below.

Performance Metric	2013/14		Performance vs Target
	Target	Performance	
Net Product Growth	+2.2m	+3.1m	141%
Operating Profit	£1,225m	£1,260m	103%
Operating Cash Flow	£1,150m	£1,284m	112%

On the basis of this performance the Committee determined that the bonus was paid at 100% of maximum for the Group CEO and 100% for the Group COO & CFO. There was no LTIP vesting in 2014. The 2013–15 LTIP vested in July 2015 and it is anticipated that the performance targets will be published in the 2017 remuneration report, two years from the end of the performance period.

## How do we intend to implement the remuneration policy next year?

The Committee has determined that the remuneration policy will be implemented as set out below for the year ending 30 June 2017.

### Base salary

The average salary increase for our employees, effective 1 July 2016, was 2.7% for those earning less than £31,000, and 2.0% for all other employees, with increases up to 10% for outstanding performance, promotions and market adjustments. Whilst the level of personal achievement of the Executive Directors would allow for greater increases under the all employee salary review process, the Committee decided to make base salary adjustments of 2.5% each for the Group CEO and Group COO & CFO, effective 1 July 2016, to recognise their contribution without compromising the long held intent to maintain a well-leveraged package with a relatively low level of fixed pay versus our pay comparator group.

### Taxable benefits and pension

No changes.

### Annual Bonus and Co-Investment Plan

The performance measures used for the annual bonus have previously been growth in paid-for products, operating profit and operating cash flow. For 2016/17, the Remuneration Committee decided to retain three measures, but replace growth in paid-for products with revenue growth, which the Committee believes is a more relevant indicator of success against our broader growth strategy; revenue growth captures AdSmart, third-party distribution revenue and Sky Store, none of which are captured within the narrower measure of product growth.

We expect that both of the Executive Directors will participate in the CIP for this year. The performance conditions for the vesting of shares are as per the details set out on page 57.

### Long Term Incentive Plan award

The Committee agreed that Jeremy Darroch would be granted an award of 600,000 shares and Andrew Griffith would be granted an award of 350,000 shares on 29 July 2016. This is the Year 1 award of the 2016–2019 Plan. These awards will normally vest on 29 July 2019 subject to the performance measures being achieved.

The performance conditions for this award remain the same as for those made in 2014 and 2015, and operate using the same methodology as set out on pages 56 to 57.

EPS growth target and TSR vesting schedule are outlined on page 57.

### Introduction of Clawback

The Committee agreed to introduce a clawback provision for the annual bonus, Co-Investment and Long Term Incentive Plans, with effect for share awards granted from July 2016 and for bonus awards payable from year ending 30 June 2017. The provision will apply at the discretion of the Remuneration Committee, in cases of gross misconduct or misstatement of results.

## Directors' Share Interests

As at the end of the financial year, the Group CEO had beneficial ownership of 628,078 shares equivalent to 5.2 x base salary and the Group COO & CFO had beneficial ownership of 143,267 shares, equivalent to 1.9 x base salary, using the year end closing share price of £8.48. The Group CEO currently exceeds the shareholding guidelines for Executive Directors as described on page 54. Andrew Griffith fell slightly behind the shareholding guidelines of 2x base salary using the closing share price on 30 June 2016 of £8.48. This was due to a sharp fall in the share price at the end of the year in line with the market due to uncertainty over the EU referendum. He has given an undertaking to the Remuneration Committee to remedy any shortfall to the required holding before 30 September 2016.

### Interests in Sky plc shares (audited)

	As at 30 June 2015	Change during the year	As at 30 June 2016
<b>Executive Directors:</b>			
Jeremy Darroch <sup>1</sup>	578,269	49,809	628,078
Andrew Griffith <sup>1</sup>	146,667	(3,400)	143,267
<b>Non-Executive Directors:</b>			
Chase Carey <sup>2</sup>	-	-	-
Tracy Clarke	2,554	801	3,355
David DeVoe <sup>2</sup>	-	-	- <sup>3</sup>
Nick Ferguson	37,878	6,390	44,268 <sup>4</sup>
Martin Gilbert	5,022	1,324	6,346
Adine Grate	9,194	-	9,194
Dave Lewis	6,728	3,598	10,326
James Murdoch <sup>2</sup>	-	-	-
John Nallen <sup>2</sup>	-	-	-
Matthieu Pigasse	5,106	1,311	6,417
Danny Rimer	30,930	1,241	32,171 <sup>3</sup>
Arthur Siskind <sup>2</sup>	-	-	- <sup>3</sup>
Andy Sukawaty	2,213	1,095	3,308

1 Interests in shares include shares purchased under the Co-Investment Plan on 28 August 2015 at a price of £10.42.

2 Non-Executive Directors affiliated to 21st Century Fox are not permitted to participate in the monthly share purchase plan.

3 Shareholding as at 4 November 2015, the date David DeVoe, Danny Rimer and Arthur Siskind stepped down from the Board.

4 Shareholding as at 30 April 2016, the date Nick Ferguson stepped down from the Board.

### Outstanding share awards: Jeremy Darroch (audited)

Date of award	At 30 June 2015	Vested during year	Exercised during year	Lapsed during year	At 30 June 2016	Share price at date of award	Market price on exercise	Date from which exercisable	Expiry date
<b>LTIP<sup>1,2,6</sup></b>									
26.07.12	600,000	558,000	558,000	42,000	-	£7.065	£11.50	26.07.15	26.07.20
26.07.13	600,000	558,000	558,000	42,000	-	£8.22	£11.50	26.07.15	26.07.20
25.07.14	600,000	-	-	-	600,000	£8.745	n/a	25.07.17	25.07.22
29.07.15	-	-	-	-	600,000	£11.32	n/a	25.07.17	25.07.22
<b>CIP Matching<sup>3,4,5,6</sup></b>									
28.08.12	184,149	184,149	184,149	-	-	£7.64	£10.42	28.08.15	28.08.20
28.08.13	162,794	-	-	-	162,794	£8.41	n/a	28.08.16	28.08.21
01.09.14	163,644	-	-	-	163,644	£8.82	n/a	01.09.17	01.09.22
28.08.15	-	-	-	-	141,758	£10.42	n/a	28.08.18	28.08.23
<b>Sharesave</b>									
30.09.14	2,139	-	-	-	2,139	£8.82	n/a	01.02.20	31.07.20

### Outstanding share awards: Andrew Griffith (audited)

Date of award	At 30 June 2015	Vested during year	Exercised during year	Lapsed during year	At 30 June 2016	Share price at date of award	Market price on exercise	Date from which exercisable	Expiry date
<b>LTIP<sup>1,2,6</sup></b>									
26.07.12	320,000	297,600	297,600	22,400	-	£7.065	£11.50	26.07.15	26.07.20
26.07.13	320,000	297,600	297,600	22,400	-	£8.22	£11.50	26.07.15	26.07.20
25.07.14	350,000	-	-	-	350,000	£8.745	n/a	25.07.17	25.07.22
29.07.15	-	-	-	-	350,000	£11.32	n/a	25.07.17	25.07.22
<b>CIP Matching<sup>3,4,5,6</sup></b>									
28.08.12	84,713	84,713	84,713	-	-	£7.64	£10.42	28.08.15	28.08.20
28.08.13	74,249	-	-	-	74,249	£8.41	n/a	28.08.16	28.08.21
01.09.14	76,930	-	-	-	76,930	£8.82	n/a	01.09.17	01.09.22
28.08.15	-	-	-	-	66,938	£10.42	n/a	28.08.18	28.08.23
<b>Sharesave</b>									
30.09.14	1,271	-	-	-	1,271	£8.82	n/a	01.02.18	31.07.18

1 Performance conditions relating to LTIP awards made in 2012 and 2013 are disclosed in the 2013 Annual Report.

2 The 2012 and 2013 LTIP awards were exercised and shares subsequently sold on 29 July 2015. The aggregate value received by the Executive Directors on exercise of their 2012 and 2013 LTIP Awards before tax was £19,678,800.

3 The 2012 CIP award was exercised and shares subsequently sold on 28 August 2015. The aggregate value received by the Executive Directors on exercise of their 2012 CIP Matching Award before tax was £2,801,542.

4 Dividends are payable on shares purchased through the CIP. During the year the Executive Directors received £79,621.43 (2015: £81,725.78).

5 Performance conditions relating to CIP Matching Awards can be found on page 57.

6 Following the vesting of awards, participants continuing to be employed by the Company have five years to exercise the award.

## What did we pay our Chairman and Non-Executive Directors during the year?

The following table sets out the single figure for total remuneration for the Chairman and Non-Executive Directors for the financial year ended 30 June 2016 and the prior year ended 30 June 2015.

	2016 Total Fees <sup>1</sup>	2015 Total Fees
Nick Ferguson <sup>2</sup>	404,818	473,934
Chase Carey	63,000	61,500
Tracy Clarke	108,000	106,500
David DeVoe <sup>3</sup>	21,727	61,500
Dave Lewis <sup>9</sup>	92,397	91,500
Martin Gilbert <sup>5,8</sup>	144,827	127,513
Adine Grate <sup>8,10</sup>	87,821	80,859
James Murdoch <sup>6</sup>	153,231	96,500
John Nallen <sup>4</sup>	41,353	–
Matthieu Pigasse <sup>9</sup>	73,615	71,500
Danny Rimer <sup>3</sup>	21,727	61,500
Arthur Siskind <sup>3</sup>	25,176	71,500
Andy Sukawaty <sup>7</sup>	80,154	71,500

1 Basic fees were increased by 2.5% from 1 July 2015.

2 Nick Ferguson retired from the Board and stepped down as Chairman of the Company, a member of the Remuneration Committee and as Chair of the Corporate Governance & Nominations Committee on 30 April 2016.

3 David DeVoe, Danny Rimer and Arthur Siskind retired from the Board on 4 November 2015.

4 John Nallen joined the Board on 4 November 2015.

5 Martin Gilbert stepped down as the Senior Independent Director and was appointed as Deputy Chairman on 30 April 2016.

6 James Murdoch was appointed Chairman of the Board on 30 April 2016.

7 Andy Sukawaty was appointed as Senior Independent Director on 30 April 2016 and as Chair and a Member of the Corporate Governance & Nominations Committee on 9 June 2016.

8 Martin Gilbert stepped down as Chair of the Audit Committee on 9 June 2016 and was replaced by Adine Grate.

9 Dave Lewis stepped down as a Member of the Corporate Governance & Nominations Committee on 9 June 2016 and was replaced by Matthieu Pigasse.

10 Adine Grate had taxable travel expenses of £3,283 during the year, which has been 'grossed up' for tax and included in the total fees.

Fees for the Chairman and Non-Executive Directors are detailed in the table below:

	1 July 2016 £	1 July 2015 £
Chairman (all inclusive fee)	400,000	485,782
Deputy Chairman	30,000	30,000
Board member <sup>1</sup>	64,600	63,000
Additional responsibilities:		
Senior Independent Director	40,000	40,000
Chairman of Committee	25,000	25,000
Member of Committee	10,000	10,000

1 Fees for the Non-Executive Directors were increased by 2.5% effective 1 July 2016.

## Payments to past Directors and loss of office

There were no payments made to past Directors and no payments made for loss of office during the financial year.

## Shareholder voting outcomes

The Company is committed to engaging with shareholders and every year engages with major shareholders and institutional investor groups to talk about remuneration. This enables the Company to take shareholders' views fully into account when making decisions about remuneration. At the AGM held on 4 November 2015, 92.87% of shareholders voted in favour of the Directors' Report on Remuneration.

Resolution	Votes For	% For	Votes Against	% Against	Total Votes Cast	Votes Withheld
Approval of the Remuneration Report	1,351,868,431	92.87	103,716,164	7.13	1,455,584,595	18,792,760



## Membership of the Committee

During the year ended 30 June 2016 the Committee chaired by Tracy Clarke met five times. Tracy Clarke, Adine Grate, and Andy Sukawaty are members of the Committee. Attendance during the year is shown on page 40. Nick Ferguson stepped down from the Committee on 30 April 2016 following his retirement.

## Role of the Committee

The role of the Committee is to oversee the remuneration policy so that the Company is able to recruit, retain and motivate its Executives and reward their individual contributions in a fair and responsible manner. The Committee reviews the design and structure of employee incentives and is responsible for approving the key terms of employment for the Executive Directors or any senior executive who reports directly to the Group CEO. The full terms of reference for the Committee are available on the Company's corporate website. The terms of reference were reviewed during the year as part of the normal corporate review process and no material changes were made.

## Committee activities during the year

The table below shows a summary of the key areas discussed by the Committee during the financial year.

July 2015	November 2015	January 2016	April 2016	June 2016
Performance outcomes for bonus, LTIP and CIP	Performance update – bonus, LTIP and CIP	Performance update – bonus, LTIP and CIP	Performance update – bonus, LTIP and CIP	Performance update – bonus, LTIP and CIP
Target setting for 2015/16	Update on reporting season	Implementation of clawback	Update on LTIP design	Update on LTIP design
Review and approve remuneration for Executive Directors and Senior Management	Review implementation of clawback	Update on LTIP design Review of Remuneration Policy	Benchmarking for Executive Directors Update on reporting season Operation of clawback provisions	Review of draft Directors' Remuneration Report Statement
Review and approve Directors' Remuneration Report				
Update on meetings with shareholders' voting advisory services				
Approval of International Sharesave rules				

## Advisors to the Committee

Willis Towers Watson acted as independent advisors to the Committee throughout the year. The Committee is satisfied that the advice it receives on Executive Directors' remuneration is independent and objective, and that the advisors do not have connections with Sky that may impair their independence. Terms of reference are monitored throughout the appointment. Willis Towers Watson subscribes to the Remuneration Consultants Group's Code of Conduct in relation to executive remuneration. The Code clarifies the scope and conduct of the role of remuneration consultants when advising UK listed companies. The fees paid to Willis Towers Watson for their services in relation to directors' pay totalled £241,800. During the year, Willis Towers Watson also provided Sky with advice on pension within its reward strategy, and the operation of its pension and related benefit provisions, and also advised on a review of call centre incentives.

The Group CEO and the Director for People provide information and advice and attend meetings as required. The Committee is also supported by the Company Secretary, Finance and Human Resources functions. No individuals are involved in the decision in relation to their own remuneration.

The Remuneration Report was approved by the Board of Directors on 27 July 2016 and signed on its behalf by:

### Tracy Clarke

Chairman of Remuneration Committee

# Directors' report and statutory disclosures

## Introduction

In accordance with the Companies Act 2006, the Corporate governance report on pages 38 to 48 and information contained in the Strategic Report on pages 2 to 33 forms part of this Directors' report and are incorporated by reference.

The Directors present their report together with the audited consolidated and parent company financial statements for the year ended 30 June 2016.

## Shares

### Dividends

The Directors recommend a final dividend for the year ended 30 June 2016 of 20.95 pence per ordinary share which, together with the interim dividend of 12.55 pence paid to shareholders on 21 April 2016, will make a total dividend for the year of 33.50 pence (2015: 32.80 pence). Subject to approval at the 2016 AGM, the final dividend will be paid on 28 October 2016 to shareholders appearing on the register at the close of business on 7 October 2016.

### Share capital

The Company's issued ordinary share capital at 30 June 2016 comprised one class of ordinary shares. All of the issued ordinary shares are fully paid and rank equally in all respects. Further details of the Company's share capital and share issues under the period under review are disclosed in note 25 to the consolidated financial statements.

### Interests in voting rights

Information provided to the Company pursuant to the UK Listing Authority's Disclosure and Transparency Rules ('DTRs') is published on a Regulatory Information Service and on the Company's website. As at 30 June 2016, the Company had been notified under DTR5 of the following significant holdings of voting rights in its shares.

Identity of person or group	Amount owned <sup>3</sup>	Percent of class notified
21st Century Fox UK Nominees Limited <sup>1</sup>	672,783,139	39.14
BlackRock, Inc <sup>2</sup>	88,682,765	5.06

1 Direct holding which is subject to restrictions on its voting rights (please see 'Voting rights' below).

2 Indirect holding.

3 Number of shares held as at 30 June 2016.

Between 30 June 2016 and 27 July 2016, the Company was notified that Blackrock, Inc. holds 86,033,241 shares representing 5.00% of total voting rights.

The Employee Share Ownership Plan ('ESOP') was established to satisfy awards made to participants of the Company's employee share plans. The trustees of the ESOP have waived the right to dividends payable in respect of the shares held by it, except to the extent of 0.0001% of the dividend payable on each share. At 30 June 2016, the ESOP had an interest in 10,926,479 of the Company's ordinary shares. The Trustees, who are independent of the Company, have full discretion on how they vote the ordinary shares held by the ESOP.

### Voting rights

The Company's Articles of Association provide that subject to any rights or restrictions attached to any shares, on a show of hands every member present in person or by proxy shall have one vote and on a poll every member shall have one vote for every share of which they are a holder. On a poll, votes may be given either personally or by proxy or (in the case of a corporate member) by a duly authorised representative.

A shareholder entitled to attend and vote at a general meeting may appoint one or more proxies to attend and vote instead of them. If a member appoints more than one proxy they must specify the number of shares which each proxy is entitled to exercise rights over. A proxy need not be a shareholder of the Company. Holders of the Company's ordinary shares do not have cumulative voting rights. A voting agreement dated 21 September 2005 was entered into between the Company, BSKyB Holdco Inc, 21st Century Fox ('21CF') and 21st Century Fox UK Nominees Limited which became unconditional on 4 November 2005 and caps 21st Century Fox UK Nominees Limited's voting rights at any general meeting at 37.19%. The provisions of the voting agreement cease to apply on the first to occur of a number of circumstances which include the date on which a general offer is made by an independent person (as defined in the voting agreement) for the ordinary share capital of the Company.

### Restrictions on transfer of securities

There are no specific restrictions on the transfer of securities in the Company, which is governed by the Articles of Association and prevailing legislation, nor is the Company aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or that may result in restrictions on voting rights.

### Variation of rights

Subject to the Companies Act 2006, rights attached to any class of shares may be varied with the consent in writing of the holders of three-quarters in nominal value of the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the shareholders.

### Relationship Agreement

Changes to the Listing Rules came into effect in November 2014 which require a premium listed company which has one or more controlling shareholders to have in place an agreement which is intended to ensure that any controlling shareholder complies with the independence provisions in the Listing Rules.

21CF and certain of its wholly-owned subsidiaries, directly or indirectly, exercise or control 39.14% of the voting rights of the Company and are therefore deemed to be controlling shareholders for the purposes of the Listing Rules.

Accordingly, the Company entered into a relationship agreement with 21CF on 13 November 2014 (the 'Relationship Agreement') containing the undertakings required by the Listing Rules.

In accordance with the Listing Rules, the Board confirms that, throughout the period under review:

- (i) the Company has complied with the independence provisions in the Relationship Agreement;
- (ii) so far as the Company is aware, 21CF and its associates have complied with the independence provisions in the Relationship Agreement; and
- (iii) so far as the Company is aware, 21CF has procured compliance by its relevant subsidiaries and their associates with the independence provisions in the Relationship Agreement.

### Directors' powers in relation to the Company issuing and buying back its own shares

At the 2015 AGM, the Directors were given authority to allot ordinary shares up to a maximum nominal amount of £573,005,742 representing two-thirds of the Company's then issued ordinary share capital. Of this amount, a nominal amount of £286,502,871 (representing one-third of the Company's issued ordinary share capital) could only be allotted pursuant to a rights issue (the Allotment Authority). The Directors were additionally empowered to allot ordinary shares for cash, pursuant to the Allotment Authority, on a non-pre-emptive basis (a) in connection with a rights issue or open offer and (b) (otherwise than in connection with a rights issue or open offer) up to a maximum nominal value of £85,950,860 representing 10% of the Company's then issued share capital. The Company did not seek authority to buy back its own shares at the 2015 AGM.

### Articles of association

The Company's Articles of Association may only be amended by special resolution at a general meeting of shareholders.

### Annual General Meeting

The venue and timing of the Company's 2016 AGM is detailed in the notice convening the AGM which will be available for download from the Company's corporate website at [sky.com/corporate](http://sky.com/corporate)

## Board of Directors

### Board of Directors and their interests

The Directors who served during the year were: Nick Ferguson, Jeremy Darroch, Andrew Griffith, Chase Carey, Tracy Clarke, David DeVoe, Matthieu Pigasse, Martin Gilbert, Adine Grate, Dave Lewis, James Murdoch, John Nallen, Danny Rimer, Arthur Siskind and Andy Sukawaty. David DeVoe, Danny Rimer and Arthur Siskind retired after not seeking reappointment at the Annual General Meeting on 4 November 2015 and John Nallen was appointed immediately following the meeting. Nick Ferguson retired on 30 April 2016 as Chairman and was succeeded by James Murdoch. The biographical details of the Directors of the Company can be found on pages 36 and 37.

The Directors' interests in the ordinary shares and options of the Company are disclosed within the Directors' remuneration report on pages 49 to 63.

### Appointment and retirement of Directors

The Directors may from time to time appoint one or more Directors. Any such Director shall hold office only until the next AGM and shall then be eligible for reappointment by the Company's shareholders. At the Company's 2016 AGM all continuing Executive and Non-Executive Directors will retire and offer themselves for reappointment in compliance with the Code with the exception of Dave Lewis who has decided not to seek reappointment this year and will step down from the Board at the conclusion of the 2016 AGM. The Board has started the process to appoint a new Independent Non-Executive Director to ensure that the Board continues to be comprised of a majority of Independent Non-Executive Directors.

### Alternate Directors

A Director may appoint any other Director or any other person to act as his Alternate. An Alternate Director shall be entitled to receive notice of and attend meetings of the Directors and committees of Directors of which his appointer is a member and not able to attend. The Alternate Director shall be entitled to vote at such meetings and generally perform all the functions of his appointer as a Director in his absence.

On the resignation of the appointer for any reason the Alternate Director shall cease to be an Alternate Director. The appointer may also remove their Alternate Director by notice to the Company Secretary signed by the appointer revoking the appointment.

An Alternate Director shall not be entitled to fees for their service as an Alternate Director.

Chase Carey, James Murdoch and John Nallen have appointed each of the others to act as their Alternate Director.

## Employees

### Equal opportunities

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

### Diversity and Inclusion

At Sky we aim to be an inclusive employer, with a workforce reflecting the diversity of the societies in which we operate. For more on our approach to diversity and inclusion please see page 15.

The table below shows our gender diversity at Group level as at 30 June 2016.

	Male		Female	
Board of Directors <sup>1,2</sup>	9	82%	2	18%
Senior managers <sup>1,2,4</sup>	270	75%	91	25%
All employees <sup>2,3</sup>	19,298	63%	11,416	37%

1 As defined in the Companies Act 2006.

2 2015/16 data is independently assured by Deloitte LLP and can be viewed online at [sky.com/biggerpicture](http://sky.com/biggerpicture)

3 Based on headcount. This year we have moved from reporting all employee numbers based on FTE to headcount, as a more accurate and consistent reflection of diversity in the business. This means that the total number of female employees in 2014/15 is 10,809 (from 9,567).

4 As a result of the success of our Women in Leadership initiatives, the representation of women in the senior managers group for the UK and Ireland has risen from 27% to 30% over the past year. We plan to roll out similar initiatives across all our territories in the future to secure even higher representation of women at this level across the Group.

### Employee engagement

At Sky, we want all our people to feel involved and engaged in our business. We listen to our people through our people survey and benchmark our results externally using data from Aon Hewitt. We continue to experience high levels of participation in our people survey, averaging 77% across the two surveys this year and high levels of engagement amongst our UK and Ireland employees that are 10% above the external benchmark. Comparable surveys have not been undertaken in our other territories.

**Sky UK and Ireland: Progress against target to halve our carbon emissions relative to revenue<sup>1</sup>**

	Target	2008/09 (Baseline)	2010/11	2011/12	2012/13	2013/14	2014/15 <sup>2</sup>	2015/16
Gross absolute emissions (tCO <sub>2</sub> e)		105,839	107,294	94,616	92,968	94,420	101,039	96,510
Scope 1		20,322	23,098	20,939	20,429	20,633	24,406	24,284
Scope 2 (location-based)		85,517	84,196	73,677	72,539	73,787	76,633	72,226
Carbon intensity (tCO <sub>2</sub> e/£m)		20.7	16.3	13.9	12.8	12.4	12.9	11.5
Reduction in gross absolute CO <sub>2</sub> e emissions relative to revenue (%)	50	0	21	33	38	40	37	44

We are now rolling out our UK environment strategy across Europe, starting with reporting on our Group emissions (see table below), as well as working on a set of Group environment targets for 2015/16. These will reflect our progress to reduce our carbon intensity in the UK and Ireland and will build on the investments already made in Germany and Italy to increase energy-efficiency measures such as LED lighting and district heating, engage employees, and reduce product waste.

**Sky Group-wide carbon emissions and carbon intensity 2015/16<sup>3</sup>**

	Sky Group	UK & Ireland	Germany & Austria	Italy
<b>Gross absolute carbon emissions (tCO<sub>2</sub>e)</b>				
<b>Scope 1</b>	29,582	24,284	2,236	3,062
Fuel combustion (gas, diesel generators, fuel oil, vehicles)				
Diesel	255	188	4	63
Fuel Oil	39	n/a	39	n/a
Gas	3,974	3,910	n/a	64
Vehicle Fuel	23,892	19,687	2,146	2,059
Operation of facilities (refrigerants)				
Refrigerants	1,422	499	47	876
<b>Scope 2 (location-based)</b>	96,916	72,226	3,485	21,205
Purchased district heating gross (location-based)	428	0	260	168
Purchased electricity (location-based)	96,488	72,226	3,225	21,037
<b>Scope 2 (market-based)</b>	39,921	16,726	533	22,662
Purchased district heating (market-based)	428	0	260	168
Purchased electricity (market-based)	39,493	16,726	273	22,494
<b>Total (Scope 1 and 2) (location-based) CO<sub>2</sub>e (tCO<sub>2</sub>e)</b>	<b>126,498</b>	<b>96,510</b>	<b>5,721</b>	<b>24,267</b>
<b>Total (Scope 1 and 2) (market-based) CO<sub>2</sub>e (tCO<sub>2</sub>e)</b>	<b>69,503</b>	<b>41,010</b>	<b>2,769</b>	<b>25,724</b>
Joint Ventures contribution to total Scope 1 and 2 (location-based) CO <sub>2</sub> e (tCO <sub>2</sub> e) <sup>4</sup>	740	740	n/a	n/a
<b>Carbon intensity</b>				
Revenue (£m)	11,965	8,371	1,512	2,082
Carbon intensity (tCO <sub>2</sub> e/£m revenue)	10.57	11.53	3.78	11.66

1 Independently assured by Deloitte LLP.

2 2014/15 has been restated to reflect the most up-to-date data set.

3 We measure our CO<sub>2</sub>e emissions according to the Greenhouse Gas Protocol, the global standard for reporting greenhouse gas emissions. Our total gross CO<sub>2</sub>e emissions include all Scope 1 and Scope 2 location-based Greenhouse Gas emissions; and our market-based emissions are those remaining after emissions factors from contractual instruments have been applied. Our energy providers retain, on our behalf, the Guarantees of Origin (GOs) and Renewable Energy Guarantee of Origin (REGOs). In addition, we offset our total gross emissions, including Scope 1, location-based Scope 2 and selected Scope 3 emissions, through the purchase of Voluntary Carbon Standard offsets.

4 Joint ventures include an enterprise or business where Sky is the majority shareholder (>50%).

## Other disclosures

### Contracts of Significance

The following agreements are contracts of significance in accordance with Listing Rule 9.8.4(10).

On 25 July 2014, the Company (and certain of its subsidiaries) entered into various agreements with 21st Century Fox (and certain of its subsidiaries) to effect the acquisition of Sky Italia Srl for £2.06 billion with the consideration being partially settled by the disposal of the Company's 21% stake in National Geographic Channel International to certain of 21st Century Fox's subsidiaries at a value of US\$650 million. The sale and purchase agreements for the acquisition and disposal contained customary warranties, covenants and indemnities, including certain indemnities relating to tax and other matters as well as certain commitments from 21st Century Fox not to retail certain services to consumers in certain territories, and from Sky not to compete with the business of the National Geographic Channel, until 1 January 2017.

Also on 25 July 2014, as part of the acquisition of Sky Deutschland, the Company (and certain of its subsidiaries) entered into various agreements with 21st Century Fox (and certain of its subsidiaries) to effect the acquisition of 21st Century Fox's entire shareholding (approximately 57.4%) in Sky Deutschland AG, a German stock corporation listed on the Frankfurt Stock Exchange, for £2.9 billion (the 'Sky Deutschland Acquisition'). The sale and purchase agreement contained customary warranties as to title and ownership as well as certain commitments not to offer certain services to consumers in certain territories until 1 January 2017.

### Significant agreements

The following significant agreements which were in force at 30 June 2016 take effect, alter or terminate on a change of control of the Company following a takeover bid.

#### Premier League

In 2015, Sky UK Limited (a Group subsidiary) entered into an agreement (the '2015 PL Licence') with The Football Association Premier League Limited (the 'PL'), pursuant to which the Group was awarded five of the seven available Live Packages in respect of the three seasons 2016/17 – 2018/19, together consisting of 126 live matches per season. The PL will not award Live Packages containing in aggregate more than 126 live matches per season to a single licensee (either on its own or as part of a consortium or through one or more related parties) (the '2015 PL Single Buyer Rule'). Pursuant to the 2015 PL Licence, the PL can suspend and/or terminate all of the rights which are included in, or exercisable as part of, Live Packages containing in the aggregate up to 42 live matches per season in the event that a change of control of the Company occurs at any time prior to the expiry of the 2015 PL Licence which, if it had occurred prior to the award of the Live Packages to the Group, would have resulted in a breach of the 2015 PL Single Buyer Rule.

#### DFL Contract/Bundesliga Rights

In April 2012, Sky Deutschland Fernsehen GmbH & Co. KG entered into an agreement with the Deutsche Football Liga ('DFL') in relation to the exclusive right to broadcast all matches of the Bundesliga (1. Bundesliga 306 Matches and 2. Bundesliga 306 matches) for the seasons 2013/14 – 2016/17 across all distribution means (the 'Bundesliga Agreement 13/17'). The Bundesliga Agreement 13/17 may be terminated on a change of control.

In June 2016, Sky Deutschland Fernsehen GmbH & Co. KG entered into an agreement (the 'Bundesliga Agreement 17/21') with DFL in relation to the predominantly exclusive rights to broadcast 572 out of 612 games of the Bundesliga and 2nd Bundesliga. The lack of 40 matches was a result of the newly implemented 'No single buyer rule' by the German Federal Cartel

Office. The licence period will begin with the season 2017/18 and will end 2020/21. The Bundesliga Agreement 17/21 may be terminated on a change of control.

#### Serie A

In 2014, further to an invitation to offer (the 'ISO'), Sky Italia Srl entered into an agreement (the 'Serie A Licence') with Lega Nazionale Professionisti Serie A (the 'Lega'), pursuant to which Sky Italia Srl was awarded one of four available packages of live audio-visual rights for the Italian Serie A football championship for the seasons 2015/16 – 2017/18 (the four packages are together the 'Live Packages'). In addition Sky Italia Srl has been granted a second package through a sublicense agreement entered into with Mediaset Premium. These two packages consist of all the 380 live matches per season but do not grant rights across all distribution platforms. Pursuant to the relevant provision in the ISO, Lega will not award all of the Live Packages for all platforms to a single licensee (either on its own or through one or more of its related parties) (the 'Serie A Single Buyer Rule'). As a consequence Lega could suspend and/or terminate one or more of the rights which are included in the package assigned to Sky Italia Srl, in the event that a change of control occurs at any time prior to the expiry of the Serie A Licence which, if it had occurred prior to the award of the Live Packages, would have resulted in a breach of the Serie A Single Buyer Rule.

#### 21st Century Fox voting agreement

On 21 September 2005, the Company, BSKyB Holdco Inc., 21st Century Fox UK Nominees Limited and 21st Century Fox entered into a voting agreement, pursuant to which 21st Century Fox UK Nominees Limited's voting rights at any general meeting are capped at 37.19% (the 'Voting Agreement'). The provisions of the Voting Agreement cease to apply inter alia, on a change of control of the Company.

#### Revolving Credit Facility

The Group has a £1,000,000,000 syndicated multicurrency revolving credit facility ('RCF') with a maturity date of 30 November 2021. In the event of a change of control of the Company, as a result of which both S&P and Moody's downgrade the Company's credit rating below investment grade within 90 days, the lenders can require any amounts outstanding under the RCF to be repaid (other than in the event that 21st Century Fox or any subsidiary or holding company thereof (or a subsidiary of such holding company) acquires such control).

#### GMTN Programme bond issue

On 3 April 2007, certain Group entities established a euro medium-term note programme which provides the Group with a standardised documentation platform to allow for senior debt issuance in the Eurobond markets. On 7 February 2014, the programme was updated and expanded to become a global medium-term note programme (the 'GMTN Programme'). The GMTN Programme was last updated in June 2015. The maximum potential issuance under the GMTN Programme is £5 billion. On 14 May 2007, the Company issued bonds under the GMTN Programme (then known as an EMTN programme) consisting of £300 million guaranteed notes paying 6.000% interest and maturing on 14 May 2027 (the '2007 Notes'). On 17 November 2015, the Company issued €500 million guaranteed notes under the GMTN Programme paying 2.250% interest and maturing on 17 November 2025 (the '2015 Notes') and, together with the 2007 Notes, the 'GMTN Notes'). Pursuant to the final terms of the GMTN Notes, the Company will be required to make an offer to redeem or purchase the GMTN Notes at the relevant redemption amount plus interest up to the date of redemption or purchase if there is a change of control of the Company or the announcement of a potential change of control (i) which, if the GMTN Notes carry an investment grade credit rating, results in a downgrade to a non-investment grade rating or a withdrawal of that rating; or (ii) which, if the GMTN Notes carry a non-investment grade rating, results in a downgrade by one or more

notches or a withdrawal of that non-investment grade rating; or (iii) where, if the GMTN Notes do not carry a credit rating, the Company does not seek such a rating or is unable to achieve such a rating, provided that in each case the decision to downgrade, withdraw or not to award a credit rating occurs within a certain period of time after the change of control and the relevant rating agency cites that such decision(s) resulted from the change of control or the announcement of the potential change of control.

#### **EMTN Programme bond issue**

On 5 September 2014, certain Group entities also established a £10 billion EMTN programme (the 'EMTN Programme'), which provides the Group with a standardised documentation platform to allow for senior debt issuance in the Eurobond markets. In September 2014, the Company issued (i) €1,500 million 1.500% guaranteed notes due 2021, and (ii) €1,000 million 2.500% guaranteed notes due 2026; in November 2014, the Company issued (i) €850 million 1.875% guaranteed notes due 2023, (ii) €450 million 2.875% guaranteed notes due 2020, (iii) €300 million 4.000% guaranteed notes due 2029, and (iv) €400 million 2.750% guaranteed notes due 2029; and in April 2015, the Company issued €600 million floating rate guaranteed notes due 2020 (together, the 'Notes'). Pursuant to the conditions of the Notes, the Company will be required to make an offer to redeem or purchase the Notes at the relevant redemption amount plus interest up to the date of redemption or purchase if there is a change of control of the Company or the announcement of a potential change of control (i) which, if the Notes carry an investment grade credit rating, results in a downgrade to a non-investment grade rating or a withdrawal of that rating; or (ii) which, if the Notes carry a non-investment grade rating, results in a downgrade by one or more notches or a withdrawal of that non-investment grade rating; or (iii) which, if the Notes do not carry a credit rating, the Company does not seek such a rating or is unable to achieve such a rating, provided that in each case the decision to downgrade, withdraw or not to award a credit rating occurs within a certain period of time after the change of control and the relevant rating agency cites that such decision(s) resulted from the change of control or the announcement of the potential change of control.

#### **October 2005, February 2008, November 2008, November 2012 and September 2014 bond issues**

In October 2005, certain Group entities entered into an indenture in respect of US\$350 million 6.500% senior unsecured notes due 2035 and £400 million 5.750% senior unsecured notes due 2017 (the '2005 Indenture'). In February 2008, certain Group entities entered into an indenture in respect of US\$750 million 6.100% senior unsecured notes due 2018 (the 'February 2008 Indenture') and in November 2008, certain Group entities entered into an indenture in respect of US\$600 million 9.500% senior unsecured notes due 2018 (as amended and supplemented from time to time, the 'November 2008 Indenture'). In November 2012, the parties to the November 2008 Indenture entered into a supplemental indenture in respect of a further issuance of US\$800 million 3.125% senior unsecured notes due 2022. The November 2008 Indenture was further amended and supplemented in September 2014, with the parties thereto entering into a supplemental indenture in respect of a further issuance of US\$750 million 2.625% senior unsecured notes due 2019 and US\$1,250 million 3.750% senior unsecured notes due 2024. Pursuant to the February 2008 Indenture and the November 2008 Indenture, the Company will be required to make an offer to redeem or purchase its securities at a price equal to 101% of their principal amount plus accrued and unpaid interest up to the date of redemption or repurchase, if there is a change of control

or the announcement of a potential change of control of the Company (i) which, if the securities carry an investment grade credit rating, results in a downgrade to a non-investment grade rating or a withdrawal of that rating; or (ii) which, if the securities carry a non-investment grade rating, results in a downgrade by one or more notches or a withdrawal of that non-investment grade rating; or (iii) where, if the securities do not carry a credit rating, the Company does not seek such a rating or is unable to achieve an investment grade rating, provided that in each case the decision to downgrade, withdraw or not to award a credit rating occurs within a certain period of time after the change of control and the relevant rating agency cites that such decision(s) resulted from the change of control or the announcement of a potential change of control.

#### **UK broadcasting licences**

Sky UK Limited is party to a number of Ofcom broadcasting licences for the broadcast of Sky's wholly-owned channels. The Broadcasting Act 1990 (as amended by the Broadcasting Act 1996 and the Communications Act) lays down a number of restrictions on those parties permitted to hold Ofcom broadcasting licences. Among those restricted from holding Ofcom broadcasting licences or from controlling a licensed company are (a) local authorities, (b) political bodies, (c) religious bodies, (d) any company controlled by any of the previous categories or by their officers or associates, (e) advertising agencies or any company controlled by such an agency or in which it holds more than a 5% interest. Licensees have an ongoing obligation to comply with these ownership restrictions. Failure by a licensee to do so (either by the licensee becoming a 'disqualified person' or any change affecting the nature, characteristics or control of the licensee which would have precluded the original grant of the licence) may constitute a breach of the licence and, if not rectified, could result in revocation of the licence.

Ofcom also has a duty under the Broadcasting Acts to be satisfied that any person holding a broadcasting licence is fit and proper to hold those licences and may revoke those licences if it ceases to be so satisfied.

#### **German broadcasting licences**

Sky Deutschland Fernsehen GmbH & Co. KG is party to a number of broadcasting licences issued by the State Media Authorities BLM (Bayerische Landeszentrale für Neue Medien) and MaHSH (Medienanstalt Hamburg Schleswig-Holstein) for its linear Sky Channels. The Interstate Treaty on Broadcasting, (as amended on 15 April 2015) sets out a number of requirements for the licensees of broadcasting licences and providers of non-linear telemedia services. Licensees have an ongoing obligation to comply with these requirements. Failure by a licensee to do so may constitute a breach of the licence and, if not rectified, could result in fines or in the revocation of the licence. The State Media Authorities also have a duty under the Broadcasting Acts to be satisfied that any person holding a broadcasting licence is fit and proper to hold those licences and may revoke those licences if it ceases to be so satisfied. Any change in the ownership structure, including but not limited to an interest change exceeding the threshold of 5% in the shareholder structure of the licensee, has to be notified to and approved by the authorities.

### Italian broadcasting licences

In accordance with the Italian regulatory system, the transfer of control of a company such as Sky Italia which is classified as an audio-visual media service provider is subject to an authorisation by the Italian Regulatory Authority which is aimed at verifying the honourability of the directors and nationality. Public administrations, public entities, state-owned companies, banks and financial institutions are prohibited from being given such authorisation in relation to audio-visual media service providers.

### Disclosures required under Listing Rule 9.8.4R

For the purposes of LR 9.8.4C, the information required to be disclosed by Listing Rule 9.8.4R can be located as set out below:

Information required	Page
(1) Amount of interest capitalised and tax relief	91 (Note 4)
(2) Publication of unaudited financial information	n/a
(4) Details of long-term incentive schemes	49–63
(5) Waiver of emoluments by a director	n/a
(6) Waiver of future emoluments by a director	n/a
(7) Non pre-emptive issues of equity for cash	n/a
(8) Item (7) in relation to major subsidiary undertakings	n/a
(9) Parent participation in a placing by a listed subsidiary	n/a
(10) Contracts of significance	67
(11) Provision of services by a controlling shareholder	n/a
(12) Shareholder waivers of dividends	64
(13) Shareholder waivers of future dividends	64
(14) Agreements with controlling shareholders	64

### Financial instruments

Details of the Group's use of financial instruments, together with information on our financial risk management objectives and policies, hedging policies and our exposure to financial risks can be found in notes 23 and 24 to the consolidated financial statements.

### Political contributions

Political contributions of the Group during 2016 amounted to nil (2015: nil).

### Branches

The Group, through various subsidiaries, has established branches in a number of different jurisdictions in which the business operates.

### Going concern

The Company's going concern statement is detailed on page 31 of the Strategic Report.

### Disclosure of information to auditors

In accordance with the provisions of section 418 of the Companies Act 2006, each of the persons who are Directors of the Company at the date of approval of this report confirms that:

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

### Auditors

Deloitte LLP, the auditors of the Company, have expressed their willingness to continue in office. A resolution to reappoint them as the Company's auditors and to authorise the Directors to determine their remuneration will be proposed at the forthcoming AGM.

The Director's report (comprising pages 36 to 50 and 64 to 69) was approved by the Board and signed on its behalf by the Company Secretary.

By order of the Board

### Chris Taylor

Company Secretary  
27 July 2016

# Statement of Directors' responsibilities

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The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent Company financial statements under IFRSs as adopted by the EU. Under Company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' responsibility statement

The Directors confirm that to the best of their knowledge:

1. The financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
2. The strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
3. The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

### Jeremy Darroch

Group Chief Executive Officer  
27 July 2016

### Andrew Griffith

Group Chief Operating Officer  
and Chief Financial Officer  
27 July 2016



# Independent Auditor's report

## Independent auditor's report to the members of Sky plc

### Opinion on the financial statements of Sky plc

In our opinion the consolidated and Parent Company financial statements of Sky plc:

- give a true and fair view of the state of the Group's and Parent Company's affairs as at 30 June 2016 and of their profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and as regards the consolidated financial statements, Article 4 of the IAS Regulation.

The consolidated financial statements comprise the consolidated and company income statements, the consolidated and company statements of comprehensive income, the consolidated and company balance sheets, the consolidated and company cash flow statements, the consolidated and company statements of changes in equity, and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

### Separate opinion in relation to IFRSs as issued by the IASB

As explained in note 1 to the consolidated financial statements, in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, the Group has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the consolidated financial statements comply with IFRSs as issued by the IASB.

### Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained on page 31 of the Strategic Report and within note 1b to the financial statements and the Directors' statement on the longer-term viability of the Group contained within the Strategic Report on page 31.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 28 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 28 to 31 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement on page 31 and in note 1b to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- the Directors' explanation on page 31 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

### Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

**Our assessment of risks significant to our audit**

The risks of material misstatement described below are those that had the greatest effect on the audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
<p><b>Revenue recognition</b></p> <p>Sky retails subscription packages to customers which include multiple elements and may include discounts and offers, for example TV subscription, hardware and telephony services sold for a single package price. The allocation of retail subscription revenue to each element of a bundled transaction is complex and requires judgement, as described in the Group's critical accounting policies on page 86. There is a risk that inappropriate allocations could lead to non-compliance with accounting standards and incorrect acceleration or deferral of revenue, principally for new customers who may enter a contract of one to two years' duration, which may include hardware or installation at discounted prices up front.</p>	<p>We evaluated the Group's revenue recognition policy and management's current year assessment in respect of accounting for bundled transactions against relevant accounting standards and guidance.</p> <p>We tested the policy's implementation in each territory by:</p> <ul style="list-style-type: none"> <li>performing tests of control to confirm our understanding of the process by which revenue is calculated by the relevant billing systems;</li> <li>performing an assessment of the different product bundles and offers made available to customers in the year and confirming the fair value of different elements of these packages to appropriate evidence of fair value;</li> <li>assessing whether revenue should be accelerated or deferred based on the relative fair value of elements delivered at different points during the contract, when compared to the revenue calculated by the relevant billing system; and</li> <li>where differences arose between the revenue calculated by the billing system and the revenue recognition profile calculated in accordance with the Group's revenue recognition policy, auditing the valuation, accuracy and completeness of those adjustments recognised to align revenue recognised with the Group's accounting policy.</li> </ul>
<p><b>Entertainment programming amortisation</b></p> <p>Determining the timing and amount of general entertainment programming expense recognised in the period requires judgement in selecting the appropriate recognition profile and ensuring that this profile achieves the objective of recognising programming inventory expense in line with the way that it is consumed by the Group, as set out in the Group's critical accounting policies on page 87.</p> <p>Entertainment programming expense involves more judgement than other types of programming due to the number of qualitative factors involved in the selection and application of an appropriate expense profile, which includes:</p> <ul style="list-style-type: none"> <li>The time period and frequency with which the programme is expected to be utilised on the Group's linear and non-linear services;</li> <li>Expectations of the number of viewers a programme is likely to achieve for each broadcast on the Group's linear channels;</li> <li>Potential benefits associated with utilising programming; and</li> <li>The relative values associated with linear channel and non-linear rights.</li> </ul> <p>There is a risk that the recognition profile selected by management for entertainment programming does not correctly recognise the expense in line with the way that the Group consumes the inventory.</p>	<p>The level of expenditure on general entertainment programming varies in each territory, and our procedures focused on entertainment spend in the UK and Italy, which are significant to the Group.</p> <p>We examined the method for expensing general entertainment programming inventory, taking into account the differing genres of programmes, any significant changes to viewing patterns during the year and industry benchmarks.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>benchmarking management's recognition profile against industry practice;</li> <li>considering the consistency of recognition profiles applied year on year;</li> <li>assessing the design and implementation of controls over the recognition and expensing of general entertainment programming;</li> <li>comparing the expense profile determined by management against that which would be indicated by viewing trends (used as a proxy for value consumed); and</li> <li>assessing the impact of other qualitative factors, such as the value of certain types of programming to brand or channel value and the influence on the acquisition and retention of customers.</li> </ul>

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**Risk****Capital expenditure**

The Group's spending on capital projects is material, as shown by the total value of additions in notes 13 and 14. The assessment and timing of whether assets meet the capitalisation criteria set out in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* requires judgement, as set out in the Group's critical accounting policies on page 86. In addition, determining whether there is any indication of impairment of the carrying value of assets being developed or replaced also requires judgement in assessing performance against the investment business case.

As a result, there is a risk that the Group's expenditure on intangible and tangible non-current assets is inappropriately capitalised against relevant accounting guidance, that assets not yet in use are not recoverable at their carrying value and that the value of existing assets made obsolete by current year additions may be impaired.

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**How the scope of our audit responded to the risk**

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Our procedures performed included:

- assessing the design, implementation and testing the operating effectiveness of controls in respect of the capitalisation of assets and the identification of potential indicators of impairment;
- performing sample tests of capital expenditure projects including an examination of management's assessment as to whether the project spend met the recognition criteria set forth in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*, and reviewing the project status reports for the Group's most significant projects to check for indicators of impairment; and
- For a sample of capital projects, developing an understanding of the business case, challenging key assumptions and estimates using our business and industry understanding and experience and using external information where relevant, verifying capital project authorisation, and tracing a sample of project costs to appropriate evidence.

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Last year our report included acquisition accounting as a key audit risk, which has not been included in our report this year as no material acquisitions have been completed during the year.

The description of the risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 44. We reported to the Audit Committee that our audit work on these risks was concluded satisfactorily.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in both planning the scope of our audit work and in evaluating the results of our work. We determined audit materiality for the Group to be £50 million (2015: £50 million).

We used profit before tax for our assessment of materiality, after adjusting for the impact of one-off items such as advisory fees. Materiality represents 7% (2015: 6%) of this measure. The Group's adjusted profit before tax measure further excludes the impact of amortisation of acquired intangible assets, restructuring and efficiency costs, integration costs, derivatives not qualifying for hedge accounting and the tax effect of these adjusting items (see note 10 for management's definition and reconciliation to adjusted profit for further details). Audit materiality of £50 million represents approximately 5% (2015: 5%) of the Group's adjusted profit, 1% (2015: 2%) of equity and 7% (2015: 3%) of statutory profit before taxation.

We agreed with the Audit Committee that we would report to it all audit differences in excess of £2.5 million (2015: £2.5 million), as well as differences below that threshold that in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee any significant disclosure matters that we identify when assessing the overall presentation of the financial statements. We confirmed to the Audit Committee that we had no significant disclosure matters or misstatements to report.

### An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Our audit scope is consistent with the prior year and focused on the Group's UK and Ireland, German and Austrian, and Italian operations, all of which were subject to a full scope audit for the year ended 30 June 2016 by our component audit teams. As a result all of the Group's assets, revenue and profit before tax are subject to an audit either scoped by our component audit teams to their respective component materiality or by the Group audit team. The Group audit team directed, supervised and reviewed the work of the component auditors for Germany and Austria and for Italy, which involved issuing detailed instructions, holding regular discussions with component audit teams, making multiple visits to each location throughout the year, performing detailed file reviews and attending local audit meetings with management. Audit work performed for the Group's UK and Ireland operations was performed by the Group audit team. Audit work in UK and Ireland, Germany and Austria, and Italy was performed to at levels of materiality which were lower than Group materiality and ranged from £25 million to £47.5 million, depending on the component's contribution to the Group's profit before tax.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

#### Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

#### Directors' remuneration

Under the Companies Act 2006 we are also required to report if, in our opinion, certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

#### Corporate Governance Statement

Under Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

#### Our duty to read other information in the Annual Report

Under the International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

### **Respective responsibilities of Directors and Auditor**

As explained more fully in the Statement of Directors' responsibilities set out on page 70, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Paul Franek FCA** (Senior Statutory Auditor)  
For and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London  
United Kingdom  
27 July 2016

# Consolidated financial statements

## Consolidated income statement

for the year ended 30 June 2016

	Notes	2016 £m	2015 £m
<b>Continuing Operations</b>			
Revenue	2	11,965	9,989
Operating expense	2	(10,988)	(9,017)
<b>Operating profit</b>		<b>977</b>	<b>972</b>
Share of results of joint ventures and associates	15	2	28
Investment income	4	17	8
Finance costs	4	(244)	(283)
Profit on disposal of available-for-sale-investments	5	-	492
Profit on disposal of associate	6	-	299
<b>Profit before tax</b>	7	<b>752</b>	<b>1,516</b>
Taxation	9	(89)	(184)
<b>Profit for the year from continuing operations</b>		<b>663</b>	<b>1,332</b>
<b>Discontinued Operations</b>			
Profit for the year from discontinued operations	3	-	620
<b>Profit for the year</b>		<b>663</b>	<b>1,952</b>
<b>Profit (loss) for the year attributable to:</b>			
Equity shareholders of the parent company		666	1,957
Non-controlling interests		(3)	(5)
		663	1,952
<b>Earnings per share from profit for the year (in pence)</b>			
<b>Basic</b>			
Continuing operations	10	39.0p	79.1p
Discontinued operations	10	-	36.7p
<b>Total</b>	10	<b>39.0p</b>	<b>115.8p</b>
<b>Diluted</b>			
Continuing operations	10	38.7p	78.2p
Discontinued operations	10	-	36.2p
<b>Total</b>	10	<b>38.7p</b>	<b>114.4p</b>

The accompanying notes are an integral part of this consolidated income statement.

## Consolidated statement of comprehensive income

for the year ended 30 June 2016

	2016 £m	2015 £m
<b>Profit for the year</b>	<b>663</b>	<b>1,952</b>
<b>Other comprehensive income</b>		
<b>Amounts recognised directly in equity that may subsequently be recycled to the income statement</b>		
Gain on revaluation of available-for-sale investments	1	36
Gain on cash flow hedges	699	276
Tax on cash flow hedges	(138)	(57)
(Loss) gain on net investment hedges	(897)	446
Exchange differences on translation of foreign operations	1,082	(659)
Actuarial movements on employee benefit obligations	(3)	-
	744	42
<b>Amounts reclassified and reported in the income statement</b>		
Gain on cash flow hedges (see note 23)	(458)	(174)
Tax on cash flow hedges	92	37
Transfer to income statement on disposal of available-for-sale investment (see note 5)	-	(492)
Transfer to income statement on disposal of associate (see note 6)	-	(38)
	(366)	(667)
<b>Other comprehensive income (loss) for the year (net of tax)</b>	<b>378</b>	<b>(625)</b>
<b>Total comprehensive income for the year</b>	<b>1,041</b>	<b>1,327</b>
<b>Total comprehensive income (loss) for the year attributable to:</b>		
Equity shareholders of the parent company	1,044	1,345
Non-controlling interests	(3)	(18)
	1,041	1,327

## Consolidated balance sheet

as at 30 June 2016

	Notes	2016 £m	2015 £m
<b>Non-current assets</b>			
Goodwill	12	4,713	4,160
Intangible assets	13	4,446	4,084
Property, plant and equipment	14	1,957	1,646
Investments in joint ventures and associates	15	123	133
Available-for-sale investments	16	71	31
Deferred tax assets	17	245	175
Programme distribution rights	18	36	31
Trade and other receivables	19	95	86
Derivative financial assets	23	1,022	453
		<b>12,708</b>	<b>10,799</b>
<b>Current assets</b>			
Inventories	18	990	847
Trade and other receivables	19	1,349	1,096
Current tax assets		14	8
Short-term deposits	23	-	1,100
Cash and cash equivalents	23	2,137	1,378
Derivative financial assets	23	212	130
		<b>4,702</b>	<b>4,559</b>
<b>Total assets</b>		<b>17,410</b>	<b>15,358</b>
<b>Current liabilities</b>			
Borrowings	22	31	494
Trade and other payables	20	3,902	3,430
Current tax liabilities		162	154
Provisions	21	181	103
Derivative financial liabilities	23	50	23
		<b>4,326</b>	<b>4,204</b>
<b>Non-current liabilities</b>			
Borrowings	22	8,901	7,418
Trade and other payables	20	81	94
Provisions	21	94	77
Derivative financial liabilities	23	259	60
Deferred tax liabilities	17	308	281
		<b>9,643</b>	<b>7,930</b>
<b>Total liabilities</b>		<b>13,969</b>	<b>12,134</b>
Share capital	25	860	860
Share premium	26	2,704	2,704
Reserves	26	(117)	(399)
<b>Total equity attributable to equity shareholders of the parent company</b>	26	<b>3,447</b>	<b>3,165</b>
<b>Total (deficit) equity attributable to non-controlling interests</b>		<b>(6)</b>	<b>59</b>
<b>Total liabilities and equity</b>		<b>17,410</b>	<b>15,358</b>

The accompanying notes are an integral part of this consolidated balance sheet.

These consolidated financial statements of Sky plc, registered number 02247735, have been approved and authorised for issue by the Board of Directors on 27 July 2016 and were signed on its behalf by:

**Jeremy Darroch**  
Group Chief Executive Officer

**Andrew Griffith**  
Group Chief Operating Officer and Chief Financial Officer

## Consolidated cash flow statement

for the year ended 30 June 2016

	Notes	2016 £m	2015 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	27	2,086	2,080
Interest received		10	9
Taxation paid		(189)	(219)
<b>Net cash from operating activities of continuing operations</b>		<b>1,907</b>	<b>1,870</b>
Cash generated from discontinued operations	3	-	55
Taxation paid by discontinued operations	3	-	(11)
<b>Net cash from operating activities of discontinued operations</b>		<b>-</b>	<b>44</b>
<b>Net cash from operating activities</b>		<b>1,907</b>	<b>1,914</b>
<b>Cash flows from investing activities</b>			
Dividends received from joint ventures and associates		20	25
Funding to joint ventures and associates		(8)	(10)
Purchase of joint ventures and associates		(1)	-
Purchase of property, plant and equipment		(542)	(385)
Proceeds on disposal of property, plant and equipment		3	-
Purchase of intangible assets		(432)	(357)
Purchase of subsidiaries (net of cash and cash equivalents purchased)		(26)	(6,340)
Purchase of available-for-sale investments		(50)	(88)
Proceeds on disposal of available-for-sale investments		16	546
Decrease (increase) in short-term deposits		1,100	(805)
<b>Net cash from (used in) investing activities of continuing operations</b>		<b>80</b>	<b>(7,414)</b>
Purchase of property, plant and equipment by discontinued operations	3	-	(8)
Proceeds on disposal of discontinued operations (net of cash and cash equivalents sold)	3	-	568
<b>Net cash from investing activities of discontinued operations</b>		<b>-</b>	<b>560</b>
<b>Net cash from (used in) investing activities</b>		<b>80</b>	<b>(6,854)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from borrowings		353	5,364
Repayment of borrowings		(432)	(272)
Repayment of obligations under finance leases		(18)	(10)
Proceeds from disposal of shares in Employee Share Ownership Plan ('ESOP')		10	10
Purchase of own shares for ESOP		(200)	(12)
Issue of own shares		-	1,346
Interest paid		(231)	(246)
Purchase of non-controlling interests		(170)	(328)
Dividends paid to shareholders of the parent		(564)	(549)
Dividends paid to holders of non-controlling interests		(3)	-
<b>Net cash (used in) from financing activities</b>		<b>(1,255)</b>	<b>5,303</b>
Effect of foreign exchange rate movements		27	(67)
<b>Net increase in cash and cash equivalents</b>		<b>759</b>	<b>296</b>
Cash and cash equivalents at the beginning of the year		1,378	1,082
<b>Cash and cash equivalents at the end of the year</b>		<b>2,137</b>	<b>1,378</b>

The accompanying notes are an integral part of this consolidated cash flow statement.

Unless otherwise stated, all cash flows relate to continuing operations.

The analysis of cash flows of discontinued operations in the prior year, previously disclosed in the notes to the financial statements, has been presented within the relevant cash flow headings shown above in order to disaggregate these cash flows on the face of the consolidated cash flow statement.



## Consolidated statement of changes in equity

for the year ended 30 June 2016

	Attributable to equity shareholders of the parent company									
	Share capital £m	Share premium £m	ESOP reserve £m	Hedging reserve £m	Available-for-sale reserve £m	Other reserves £m	Retained (deficit) earnings £m	Total shareholders' equity £m	Non-controlling interests £m	Total equity £m
<b>At 1 July 2014</b>	<b>781</b>	<b>1,437</b>	<b>(145)</b>	<b>(20)</b>	<b>455</b>	<b>455</b>	<b>(1,891)</b>	<b>1,072</b>	-	<b>1,072</b>
Profit (loss) for the year	-	-	-	-	-	-	1,957	1,957	(5)	1,952
Net investment hedges	-	-	-	-	-	446	-	446	-	446
Exchange differences on translation of foreign operations	-	-	-	-	-	(646)	-	(646)	(13)	(659)
Revaluation of available-for-sale investments	-	-	-	-	36	-	-	36	-	36
Transfer to income statement on disposal of associate (see note 6)	-	-	-	-	-	(38)	-	(38)	-	(38)
Transfer to income statement on disposal of available-for-sale investment (see note 5)	-	-	-	-	(492)	-	-	(492)	-	(492)
Transfer on disposal of subsidiaries	-	-	-	-	-	(97)	97	-	-	-
Recognition and transfer of cash flow hedges	-	-	-	102	-	-	-	102	-	102
Tax on items taken directly to equity	-	-	-	(20)	-	-	-	(20)	-	(20)
<b>Total comprehensive income (loss) for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>82</b>	<b>(456)</b>	<b>(335)</b>	<b>2,054</b>	<b>1,345</b>	<b>(18)</b>	<b>1,327</b>
Share-based payment	-	-	20	-	-	-	69	89	-	89
Issue of own equity shares	79	1,267	-	-	-	-	-	1,346	-	1,346
Non-controlling interests arising on purchase of subsidiaries	-	-	-	-	-	-	-	-	191	191
Tax on items taken directly to equity	-	-	-	-	-	-	17	17	-	17
Share buy-back programme:										
- Reversal of financial liability for close period purchases	-	-	-	-	-	-	59	59	-	59
Dividends	-	-	-	-	-	-	(549)	(549)	-	(549)
Purchase of non-controlling interests	-	-	-	-	-	-	(214)	(214)	(114)	(328)
<b>At 30 June 2015</b>	<b>860</b>	<b>2,704</b>	<b>(125)</b>	<b>62</b>	<b>(1)</b>	<b>120</b>	<b>(455)</b>	<b>3,165</b>	<b>59</b>	<b>3,224</b>
Profit (loss) for the year	-	-	-	-	-	-	666	666	(3)	663
Net investment hedges	-	-	-	-	-	(897)	-	(897)	-	(897)
Exchange differences on translation of foreign operations	-	-	-	-	-	1,082	-	1,082	-	1,082
Revaluation of available-for-sale investments	-	-	-	-	1	-	-	1	-	1
Recognition and transfer of cash flow hedges	-	-	-	241	-	-	-	241	-	241
Tax on items taken directly to equity	-	-	-	(46)	-	-	-	(46)	-	(46)
Actuarial movements on employee benefit obligations	-	-	-	-	-	(3)	-	(3)	-	(3)
<b>Total comprehensive income (loss) for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>195</b>	<b>1</b>	<b>182</b>	<b>666</b>	<b>1,044</b>	<b>(3)</b>	<b>1,041</b>
Share-based payment	-	-	-	-	-	-	(88)	(88)	-	(88)
Non-controlling interests arising on purchase of subsidiaries	-	-	-	-	-	-	-	-	1	1
Dividends	-	-	-	-	-	-	(564)	(564)	(3)	(567)
Purchase of non-controlling interests	-	-	-	-	-	-	(110)	(110)	(60)	(170)
<b>At 30 June 2016</b>	<b>860</b>	<b>2,704</b>	<b>(125)</b>	<b>257</b>	<b>-</b>	<b>302</b>	<b>(551)</b>	<b>3,447</b>	<b>(6)</b>	<b>3,441</b>

For a description of the nature and purpose of each equity reserve, see note 26.

The accompanying notes are an integral part of this consolidated statement of changes in equity.

# Notes to the consolidated financial statements

## 1. Accounting policies

Sky plc (the 'Company') is a public limited company incorporated in the United Kingdom ('UK') and registered in England and Wales. The consolidated financial statements include the Company and its subsidiaries (together, the 'Group') and its interests in associates and jointly controlled entities.

### a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'), the Companies Act 2006 and Article 4 of the International Accounting Standard ('IAS') Regulations. In addition, the Group also complied with IFRS as issued by the International Accounting Standards Board ('IASB').

### b) Basis of preparation

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

The Group maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal year 2016, this date was 3 July 2016, this being a 53 week year (fiscal year 2015: 28 June 2015, 52 week year). For convenience purposes, the Group continues to date its consolidated financial statements as at 30 June and to refer to the accounting period as a 'year' for reporting purposes. The Group has classified assets and liabilities as current when they are expected to be realised in, or intended for sale or consumption in, the normal operating cycle of the Group.

### c) Basis of consolidation

#### i. Subsidiaries

Subsidiaries are entities controlled by the Company. Control is achieved where the Company has existing rights that give it the current ability to direct the relevant activities that affect the Company's returns and exposure or rights to variable returns from the entity. Subsidiaries are included in the consolidated financial statements of the Company from the date control of the subsidiary commences until the date that 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.

#### ii. Associates and joint ventures

Associates are entities where the Group has significant influence, but not control or joint control, over the relevant activities of the entity. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. These consolidated financial statements include the Group's share of the total recognised gains and losses of associates and joint ventures using the equity method, from the date that significant influence or joint control commences to the date that it ceases, based on present ownership interests and excluding the possible exercise of potential voting rights, less any impairment losses (see accounting policy i). When the Group's interest in an associate or joint venture has been reduced to nil because the Group's share of losses exceeds its interest in the associate or joint venture, the Group only provides for additional losses to the extent that it has incurred legal or constructive obligations to fund such losses, or where the Group has made payments on behalf of the associate or joint venture. Where the disposal of an investment in an associate or joint venture is considered to be highly probable, the investment ceases to be equity accounted and, instead, is classified as held for sale and stated at the lower of carrying amount and fair value less costs to sell.

#### iii. Non-controlling interests

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity. Non-controlling interests consist of the amount of those interests at the date of the acquisition and the non-controlling shareholders' share of changes in equity since the date of the acquisition. The interest of the non-controlling shareholders in the acquiree may initially be measured either at fair value or at the non-controlling shareholders' proportion of the net fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed. The choice of measurement basis is made on an acquisition-by-acquisition basis. In transactions with non-controlling parties that do not result in a change in control, the difference between the fair value of the consideration paid or received and the amount by which the non-controlling interest is adjusted, is recognised in equity.

#### d) Goodwill

Business combinations that have occurred since 1 July 2004, the date of transition to IFRS (the 'Transition Date'), are accounted for by applying the acquisition method of accounting. Following this method, goodwill is initially recognised on consolidation, representing the difference between the fair value cost of the business combination and the fair value of the identifiable assets, liabilities and contingent assets and liabilities assumed.

In respect of business combinations that occurred prior to the Transition Date, goodwill has been included at the amounts recognised under the Group's UK Generally Accepted Accounting Principles ('UK GAAP') accounting policies on the Transition Date. On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the determination of profit or loss on disposal, except for goodwill written off to reserves under UK GAAP prior to the Transition Date, which is not reinstated and is not included in determining any subsequent gain or loss on disposal.

Goodwill is stated at cost less any impairment losses and is tested, at least annually, for impairment, based on the recoverable amounts of the cash generating unit to which the goodwill has been allocated. Any impairment identified is recognised immediately in the income statement and is not subsequently reversed. The carrying amount of goodwill in respect of associates and joint ventures is included in the carrying amount of the investment in the associate or joint venture. Goodwill is tested for impairment in line with accounting policy i below.

#### e) Intangible assets and property, plant and equipment ('PPE')

##### i. Intangible assets

Research expenditure is recognised in operating expense in the income statement as the expenditure is incurred. Development expenditure (relating to the application of research knowledge to plan or design new or substantially improved products for sale or use within the business) is recognised as an intangible asset from the point that the Group has the intention and ability to generate probable future economic benefits from the development expenditure, that the development is technically feasible and that the subsequent expenditure can be measured reliably. Any other development expenditure is recognised in operating expense as incurred.

Other intangible assets which are acquired by the Group separately or through a business combination are initially stated at cost or fair value, respectively, less accumulated amortisation and impairment losses, other than those that are classified as held for sale, which are stated at the lower of carrying amount and fair value less costs to sell.

The amortisation of an intangible asset begins when the asset is available for use, and is charged to the income statement through operating expense over the asset's useful economic life in order to match the expected pattern of consumption of future economic benefits embodied in the asset. Principal useful economic lives used for this purpose are:

- Trademarks 5 to 25 years straight-line
- Internally generated intangible assets 3 to 5 years straight-line
- Software development (external) and software licences 3 to 7 years straight-line
- Acquired customer contracts and related customer relationships
  - Relating to the acquired customer base in Germany and Austria 15 years reducing balance basis
  - Relating to the acquired customer base in Italy 15 years reducing balance basis
  - Relating to acquired customer bases in UK and Ireland 3 to 12 years straight-line
  - Relating to other customer relationships in UK and Ireland 8 to 25 years straight-line
- Other intangible assets 1 to 5 years straight-line

For acquired customer contracts and related customer relationships, the assets are amortised on either a reducing balance basis or on a straight-line basis depending on which more accurately reflects the pattern of how future economic benefits will be consumed, as determined by the estimated customer retention profile.

If the asset's useful economic life is judged to be indefinite or the asset is not yet available for use, no amortisation is charged and an impairment test is carried out at least annually. Other intangible assets are tested for impairment in line with accounting policy i below.

## ii. Property, plant and equipment

Owned PPE is stated at cost, net of accumulated depreciation and any impairment losses, (see accounting policy i), other than those items that are classified as held for sale, which are stated at the lower of carrying amount and fair value less costs to sell. When an item of PPE comprises major components having different useful economic lives, the components are accounted for as separate items of PPE.

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are treated as PPE (see accounting policy n).

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

- Freehold buildings 25 to 40 years
- Equipment, furniture and fixtures 3 to 20 years
- Set-top boxes and routers 5 to 7 years
- Assets under finance leases and leasehold improvements Lesser of lease term and the useful economic life

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

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

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

## f) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments to hedge its exposure to fluctuations in interest and foreign exchange rates.

Derivatives are held at fair value from the date on which a derivative contract is entered into. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under IFRS 13 'Fair Value Measurement'. The Group calculates a separate credit valuation adjustment ('CVA') or debit valuation adjustment ('DVA') for each derivative based upon the net position for each counterparty relationship. The Group calculates the CVA where it has a net asset position using a quoted credit default swap curve for the counterparty and calculates the DVA where it has a net liability position using an industry proxy credit default swap curve for the Group. The fair value of derivative financial instruments is calculated by discounting future cash flows with reference to the benchmark Libor curve, adjusted by the relevant credit default swap curve. Certain derivatives held by the Group which relate to highly probable forecast transactions ('hedged items'), which meet qualifying criteria under IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39'), are designated as cash flow hedges. Other derivatives which hedge changes in fair value of fixed rate financial instruments and meet the requirements of IAS 39 are designated as fair value hedges, and are subject to cash flow hedge accounting or fair value hedge accounting respectively. Certain borrowings and derivatives have been designated as net investment hedges of the Group's foreign operations for movements in the spot foreign exchange rate, see section r for further details. Certain other derivatives held by the Group do not meet the qualifying criteria for recognition for accounting purposes as hedges, despite this being their economic function. Changes in the fair values of these derivatives are recognised immediately in the income statement. The Group does not hold or issue derivatives for speculative purposes.

### i. Derivatives that qualify for cash flow hedge accounting

Changes in the fair values of derivatives that are designated as cash flow hedges ('cash flow hedging instruments') are initially recognised in the hedging reserve. In circumstances in which the derivative used is a currency option, only changes in the intrinsic value of the option are designated under the cash flow hedging relationship, with all other movements being recorded immediately in the income statement. Amounts accumulated in the hedging reserve are subsequently recognised in the income statement in the periods in which the related hedged items are recognised in the income statement.

At inception, the effectiveness of the Group's cash flow hedges is assessed through a comparison of the principal terms of the hedging instrument and the underlying hedged item. The ongoing effectiveness of the Group's cash flow hedges is assessed using the dollar-offset approach, with the expected cash flows of hedging instruments being compared to the expected cash flows of the hedged items. This assessment is used to demonstrate that each hedge relationship is expected to be highly effective on inception, has been highly effective in the period and is expected to continue to be highly effective in future periods. The measurement of hedge ineffectiveness for the Group's hedging instruments is calculated using the hypothetical derivative method, with the fair values of the hedging instruments being compared to those of the hypothetical derivative that would result in the designated cash flow hedge achieving perfect hedge effectiveness. The excess of the cumulative change in the fair value of the actual hedging instrument compared to that of the hypothetical derivative is deemed to be hedge ineffectiveness, which is recognised in the income statement.

## 1. Accounting policies (continued)

The Group uses a range of 80% to 125% for hedge effectiveness, in accordance with IAS 39, and any relationship which has effectiveness outside this range is deemed to be ineffective and hedge accounting is suspended.

When a cash flow hedging instrument expires, is terminated or is exercised, or if a hedge no longer meets the qualifying criteria for hedge accounting, any cumulative gain or loss existing in the hedging reserve at that time remains in the hedging reserve and is recognised when the forecast transaction is ultimately recognised in the income statement, provided that the underlying transaction is still expected to occur. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedging reserve is immediately recognised in the income statement and all future changes in the fair value of the cash flow hedging instruments are immediately recognised in the income statement.

### ii. Derivatives that qualify for fair value hedge accounting

The Group has designated certain derivatives as fair value hedges as defined under IAS 39. Any changes in the fair value of the derivatives are recognised immediately in the income statement. The carrying values of the underlying hedged items are adjusted for the change in the fair value of the hedged risks, with the gains or losses recognised immediately in the income statement, offsetting the fair value movement on the derivative.

Prospective effectiveness is assessed quarterly, through a comparison of the principal terms of the hedging instrument and the underlying hedged item, including the likelihood of default by the derivative counterparty. The retrospective effectiveness of the Group's fair value hedges is calculated quarterly using the cumulative dollar-offset approach, with movements in the fair value of the hedged item being compared to movements in the fair value of the hedging instrument.

The Group uses a range of 80% to 125% for hedge effectiveness and any relationship which has effectiveness outside this range is deemed to be ineffective and hedge accounting is suspended.

### iii. Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with unrealised gains or losses reported in the income statement. Embedded derivatives are carried on the balance sheet at fair value from the inception of the host contract. Changes in fair value are recognised within the income statement during the period in which they arise.

## g) Inventories

### i. Acquired and commissioned television programme rights for broadcast

Programme inventories for broadcast are stated at the lower of cost and net realisable value ('NRV'), including, where applicable, estimated subscriber escalation payments, and net of the accumulated expense charged to the income statement to date.

Such programming rights are included as inventories when the legally enforceable licence period commences and all of the following conditions have been met: (a) the cost of each programme is known or reasonably determinable; (b) the programme material has been accepted by the Group in accordance with the conditions of the rights, and (c) the programme is available for its first showing. Prior to being included in inventories, the programming rights are classified as television programme rights not yet available for transmission and not recorded as inventories on the Group's balance sheet and are instead disclosed as contractual commitments (see note 28). Payments made in advance of the legal right to broadcast the programmes are treated as prepayments.

The cost of television programme inventories is recognised in the operating expense line of the income statement, over the period the Group utilises and consumes the programming rights, applying linear-broadcast and time-based methods of amortisation depending on the type of programme right, taking into account the circumstances primarily as described below. These circumstances may change or evolve over time and as such, the Group regularly reviews and updates the method used to recognise programming expense.

- Sports – the majority or all of the cost is recognised in the income statement on the first broadcast or, where the rights are for multiple seasons or competitions, such rights are recognised principally on a straight-line basis across the seasons or competitions. Where the rights are packaged, sold or consumed over the off-season, the Group allocates an appropriate portion of the total rights value to the off-season period, and that cost is recognised on a straight-line basis over the off-season period.
- News – the cost is recognised in the income statement as incurred.
- Movies – the cost is recognised in the income statement on a straight-line basis over the period for which the broadcast rights are licensed.
- General entertainment – the cost relating to acquired, commissioned and produced rights are recognised in the income statement principally based on the expected value of each planned broadcast on the Group's linear channels and the time period over which the non-linear programme rights are expected to be utilised. The cost attributable or apportioned to non-linear (on demand) rights are amortised on a straight-line basis over the period of broadcast rights.

The Group regularly reviews its programming rights for impairment. Where programme broadcast rights are surplus to the Group's requirements, and no gain is anticipated through a disposal of the rights, or where the programming will not be broadcast for any other reason, a write-down to the income statement is made. Any reversals of inventory write-downs are recognised as reductions in operating expense.

### ii. Programme distribution rights

Programme distribution rights are valued at the lower of cost and NRV, net of the accumulated expense charged to the income statement to date.

The cost of the programme distribution rights is recognised in operating expense in line with the profile of expected revenue generation.

### iii. Set-top boxes, routers and related equipment

Set-top boxes, routers and related equipment held for sale to customers are valued at the lower of cost and NRV, the latter of which reflects the value that the business expects to realise from the set-top boxes and related equipment in the hands of the customer, and are recognised through the operating expense line of the income statement. Any subsidy is expensed on enablement, which is the process of activating the viewing card during installation, so as to enable a viewer to view encrypted broadcast services, and effectively represents the completion of the installation process for new customers. The amount recognised in the income statement is determined on a weighted average cost basis, in accordance with IAS 2 'Inventory'.

### iv. Raw materials, consumables and goods held for resale

Raw materials, consumables and goods held for resale are valued at the lower of cost and NRV. The cost of raw materials, consumables and goods held for resale is recognised through the operating expense line of the income statement on a first-in-first-out basis.

## h) Financial assets and liabilities

Financial assets and liabilities are initially recognised at fair value plus any directly attributable transaction costs. At each balance sheet date, the Group assesses whether there is any objective evidence that any financial asset is impaired. Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the financial asset or liability. Financial assets are derecognised from the balance sheet when the Group's contractual rights to the cash flows expire or the Group transfers substantially all the risks and rewards of the financial asset. Financial liabilities are derecognised from the Group's balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

### i. Available-for-sale investments

Equity investments intended to be held for an indefinite period are classified as available-for-sale investments. They are carried at fair value, where this can be reliably measured, with movements in fair value recognised directly in the available-for-sale reserve. Where the fair value cannot be reliably measured, the investment is carried at cost.

Any impairment losses in equity investments classified as available-for-sale investments are recognised in the income statement and are not reversible through the income statement unless or until the investment is disposed of, and are determined with reference to the closing market share price at the balance sheet date. Any subsequent increase in the fair value of the available-for-sale investment above the impaired value will be recognised within the available-for-sale reserve.

Available-for-sale investments are included within non-current assets unless the carrying value is expected to be recovered principally through sale rather than continuing use, in which case they are included within current assets. On disposal, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had previously been recognised directly in reserves is recognised in the income statement.

### ii. Trade and other receivables

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

### iii. Cash and cash equivalents

Cash and cash equivalents include cash in hand, bank accounts, deposits receivable on demand and deposits with maturity dates of three months or less from the date of inception. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are also included as a component of cash and cash equivalents where offset conditions are met.

### iv. Short-term deposits

This includes short-term deposits which have maturity dates of more than three months from inception. These deposits are initially recognised at fair value, and then carried at amortised cost through the income statement less any allowance for impairment losses.

### v. Trade and other payables

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

## vi. Borrowings

Borrowings are recorded as the proceeds received, net of direct issue costs. Finance charges, including any premium payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying amount of the underlying instrument to which they relate, to the extent that they are not settled in the period in which they arise.

## i) Impairment

At each balance sheet date, in accordance with IAS 36 *'Impairment of Assets'*, the Group reviews the carrying amounts of all its assets excluding inventories (see accounting policy g), non-current assets classified as held for sale, financial assets (see accounting policy h) and deferred taxation (see accounting policy o) to determine whether there is any indication that any of those assets have suffered an impairment loss.

An impairment is recognised in the income statement whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. An impairment of an investment in a joint venture or associate is recognised within the share of profit from joint ventures and associates. The recoverable amount is the greater of net selling price, defined as the fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to those units, and then to reduce the carrying amount of other assets in the unit on a pro rata basis.

An impairment loss for an individual asset or cash generating unit will be reversed if there has been a change in estimates used to determine the recoverable amount since the last impairment loss was recognised and is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Impairment of goodwill is not reversed.

## j) Provisions

Provisions are recognised when the Group has a probable, present legal or constructive obligation to make a transfer of economic benefits as a result of past events where a reliable estimate is available. The amounts recognised represent the Group's best estimate of the transfer of benefits that will be required to settle the obligation as of the balance sheet date. Provisions are discounted if the effect of the time value of money is material using a pre-tax market rate adjusted for risks specific to the liability.

## k) ESOP reserve

Where the Group's ESOP purchases the Company's own equity shares, the cost of those shares, including any attributable transaction costs, is presented within the ESOP reserve as a deduction in shareholders' equity in the consolidated financial statements.

## 1. Accounting policies (continued)

### l) Revenue recognition

Revenue, which excludes value added tax and transactions between Group companies, represents the gross inflow of economic benefit from the Group's operating activities. The Group's main sources of revenue are recognised as follows:

- Subscription revenue includes revenue from residential and commercial subscribers to TV and communication products, including over-the-top ('OTT') subscriptions, and income from set-top box sales and installation, service calls and warranties. Revenue is recognised, net of any discount given, as the goods or services are provided.
- Transactional revenue includes the purchase of physical content, OTT passes, pay per view and buy to keep content by residential and commercial customers. Transactional revenue is recognised, net of any discount given, when the relevant goods or service are provided.
- Programme and channel sales revenue includes revenue from the sale of channels and programmes across other platforms and internationally. Channel sales revenue is recognised as the services are provided on a wholesale basis to cable and other retailers and is based on the number of subscribers taking the Sky channels, as reported to the Group by the cable and other retailers, and the applicable rate card or contract. Programme sales revenue is earned from the production of programming and the distribution of programming rights. Production revenue is recognised on a stage of completion basis and distribution revenue is recognised when the contract is signed and the content is available for exploitation. The stage of completion is determined by comparing the proportion of costs incurred to date to the total estimated cost of the transaction.
- Advertising sales revenue is recognised when the advertising is broadcast. Revenue generated from airtime sales, where Sky acts as an agent on behalf of third parties, is recognised on a net commission basis.
- Other revenue principally includes income from technical platform services and the provision of network services. Other revenue is recognised, net of any discount given, when the relevant goods or service are provided.

Revenue is measured at the fair value of the consideration received or receivable. When the Group sells a set-top box, installation or service and a subscription in one bundled transaction, the total consideration from the arrangement is allocated to each element based on their relative fair values. The fair value of each individual element is determined using vendor specific or third-party evidence. The amount of revenue the Group recognises for delivered elements is limited to the cash received.

### m) Employee benefits

Wages, salaries, social security contributions, bonuses payable and non-monetary benefits for current employees are recognised in the income statement as the employees' services are rendered.

Where the Group provides pensions to eligible employees through defined contribution schemes, the amount charged to the income statement in the year represents the cost of contributions payable by the Group to the schemes in exchange for employee services rendered in that year. The assets of the schemes are held independently of the Group.

Liabilities in relation to employee obligations which are economically similar to defined benefit pension schemes are accounted for as such under IAS 19.

Termination benefits are recognised as a liability at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognises any related restructuring costs, such termination being before the normal retirement date or as the result of an offer to encourage voluntary redundancy.

The Group issues equity-settled share-based payments to certain employees which must be measured at fair value and recognised as an expense in the income statement, with a corresponding increase in equity. The fair values of these payments are measured at the dates of grant using option-pricing models, taking into account the terms and conditions upon which the awards are granted. The fair value is recognised over the period during which employees become unconditionally entitled to the awards, subject to the Group's estimate of the number of awards which will be forfeited, either due to employees leaving the Group prior to vesting or due to non-market-based performance conditions not being met. Where an award has market-based performance conditions, the fair value of the award is adjusted for the probability of achieving these via the option pricing model. The total amount recognised in the income statement as an expense is adjusted to reflect the actual number of awards that vest, except where forfeiture is due to the failure to meet market-based performance measures. In the event of a cancellation, whether by the Group or by a participating employee, the compensation expense that would have been recognised over the remainder of the vesting period is recognised immediately in the income statement.

### n) Leases

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

Sub-lease income from operating leases is recognised on a straight-line basis over the term of the lease.

#### When the Group is a lessee

Assets held under finance leases are recognised as assets of the Group at their fair value on the date of acquisition, or if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reductions to the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability.

The lease expense arising from operating leases is charged to the income statement on a straight-line basis over the term of the lease. Benefits received and receivable as incentives to enter into operating leases are recorded on a straight-line basis over the lease term.

#### When the Group is a lessor

Assets which are provided under operating lease arrangements are recognised as assets within property, plant and equipment. The assets remain in the economic ownership of the Group for the duration of the lease, and are depreciated over their useful economic lives.

### o) Taxation, including deferred taxation

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and adjusted to reflect an amount that is probable to be realised based on the weight of all available evidence. Deferred tax is calculated at the rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax assets and liabilities are not discounted. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also included within equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### p) Distributions to equity shareholders

Dividends are recognised in the retained earnings reserve in the year in which they are declared.

The cost of repurchasing the Group's own equity shares for cancellation ('share buy-backs') is recorded in retained earnings. In addition, the nominal cost of shares repurchased is deducted from share capital and a matching credit is recorded in the capital redemption reserve.

#### q) Earnings per share

Basic earnings or loss per share represents the profit or loss for the year attributable to equity shareholders of the parent company, divided by the weighted average number of ordinary shares in issue during the year excluding the weighted average number of ordinary shares purchased by and held in the Group's ESOP during the year to satisfy employee share awards.

Diluted earnings or loss per share represents the profit or loss for the year attributable to equity shareholders of the parent company, divided by the weighted average number of ordinary shares used to calculate basic earnings, plus the weighted average number of dilutive shares resulting from share options where the inclusion of these would not be antidilutive.

#### r) Foreign currency translation

Trading activities denominated in foreign currencies are recorded in the functional currency of the entity at applicable monthly exchange rates. Monetary assets, liabilities and commitments denominated in foreign currencies at the balance sheet date are recorded at the rates of exchange at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency of the entity at the exchange rate prevailing at the date of the initial transaction. Gains and losses from the retranslation of monetary assets and liabilities are included net in profit for the year.

The Group's presentational currency is pounds sterling. Assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the applicable monthly average exchange rates. Any exchange differences arising are classified as equity within the foreign currency translation reserve. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated accordingly. Gains and losses accumulated in the foreign currency translation reserve are included in the income statement when the foreign operation is disposed of.

Gains and losses on those instruments designated as hedges of the net investments in foreign operations are recognised in equity to the extent that the hedging relationship is effective; these amounts are recognised in the statement of comprehensive income. Gains and losses relating to hedge ineffectiveness are recognised immediately in the income statement for the period.

#### s) Reportable segments

IFRS 8 'Operating Segments' requires the segment information presented in the financial statements to be that which is used internally by the chief operating decision maker to evaluate the performance of the business and decide how to allocate resources. The Group has identified the Board of Directors as its chief operating decision maker and the segment information presented in the financial statements is consistent with the internal reporting reviewed by the Board.

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

The Group has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for accounting periods beginning on or after 1 July 2016. These new pronouncements are listed below. The Directors are currently evaluating the impact of the adoption of these standards, amendments and interpretations in future periods.

- Amendments to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations' (effective 1 January 2016)
- Amendments to IAS 1 'Disclosure Initiative' (effective 1 January 2016)
- Amendments to IAS 16 and IAS 38 'Clarification of Acceptable Methods of Depreciation and Amortisation' (effective 1 January 2016)
- Annual Improvements 2012–2014 cycle (effective 1 July 2016)
- Amendments to IFRS 10, 12 and IAS 28 'Investment Entities: Applying the Consolidated Exception' (effective 1 January 2016)\*
- Amendments to IAS 7 'Disclosure Initiative' (effective 1 January 2017)\*
- Amendments to IAS 12 'Recognition of Deferred Tax Assets for Unrealised Losses' (effective 1 January 2017)\*
- IFRS 15 'Revenue from Contracts with Customers' (effective 1 January 2018)\*

IFRS 15 requires the identification of deliverables in contracts with customers that qualify as 'performance obligations.' The transaction price receivable from customers must be allocated between the Group's performance obligations under contracts on a relative stand-alone selling price basis.

Where goods or services sold as part of a bundle are concluded to be 'distinct' performance obligations, revenue allocated to such goods is recognised when control of the goods passes to the customer or as the service is delivered.

IFRS 15 requires that certain costs incurred in obtaining and fulfilling customer contracts be deferred on the balance sheet and amortised as revenue is recognised under the related contract.

- Clarifications to IFRS 15 'Revenue from Contracts with Customers' (effective 1 January 2018)\*
- Amendments to IFRS 2 'Share-based Payments' (effective 1 January 2018)\*
- IFRS 9 'Financial Instruments' (effective 1 January 2018)\*
- IFRS 16 'Leases' (effective 1 January 2019)\*

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

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

Where a contract meets IFRS 16's definition of a lease and where the Group acts as a lessee, lease agreements will give rise to the recognition of a non-current asset representing the right to use the leased item and a loan obligation for future lease payables. Lease costs will be recognised in the form of depreciation of the right to use asset and interest on the lease liability.

\* not yet endorsed for use in the EU

## 1. Accounting policies (continued)

### u) Critical accounting policies and the use of judgement and estimates

Certain accounting policies are considered to be critical to the Group. An accounting policy is considered to be critical if, in the Directors' judgement, its selection or application materially affects the Group's financial position or results. The application of the Group's accounting policies also requires the use of estimates and assumptions that affect the Group's financial position or results.

Below is a summary of the Group's critical accounting policies and details of the key areas of judgement and estimates that are exercised in their application. All areas described below require the use of judgement; taxation (ii) and goodwill impairment reviews (iii) also require the use of estimates which could significantly affect the Group's financial position or results.

#### i. Revenue (see note 2)

Selecting the appropriate timing for, and amount of, revenue to be recognised requires judgement. This may involve estimating the fair value of consideration before it is received. When the Group sells a set-top box, installation or service and a subscription in one bundled transaction, the total consideration from the arrangement is allocated to each element based on its relative fair value. The fair value of each individual element is determined using vendor specific or third-party evidence. The amount of revenue the Group recognises for delivered elements is limited to the cash received.

#### ii. Taxation, including deferred taxation (see notes 9 and 17)

The Group's total tax charge is the sum of the current and deferred tax charges. The calculation of the Group's total tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority or, as appropriate, through a formal legal process.

Provisions for tax contingencies require management to make judgements and estimates in relation to tax audit issues and exposures. Amounts provided are based on management's interpretation of applicable tax law and the likelihood of settlement and include any liability for interest and penalties. Tax benefits are not recognised unless it is probable that the tax positions will be sustained. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of the likely resolution of the issue through negotiation and/or litigation.

The amounts recognised in the consolidated financial statements in respect of each matter are derived from the Group's best estimation and judgement, as described above. However, the inherent uncertainty regarding the outcome of these items means the eventual resolution could differ from the provision and in such event the Group would be required to make an adjustment in a subsequent period which could have a material impact on the Group's profit and loss and/or cash position.

The key area of judgement in respect of deferred tax accounting is the assessment of the expected timing and manner of realisation or settlement of the carrying amounts of assets and liabilities held at the balance sheet date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deferred tax assets can be utilised.

Specifically, the Group has a gross deferred tax asset relating to unused tax losses in Sky Deutschland of £681 million (2015: £553 million), which is recognised net of the deferred tax liabilities principally arising from the fair value of acquired customer contracts in Sky Deutschland resulting in a net deferred tax asset for Sky Deutschland of £243 million (2015: £147 million), as described in note 17.

The recognition of the deferred tax asset is contingent on the Group's estimation of the future taxable income of Sky Deutschland. This estimation is supported by the Group's latest available five-year forecast, which was considered by the Company's Board of Directors, and extrapolated beyond the forecast period as disclosed in note 12. Given the nature of Sky Deutschland's subscription-based business model, management has sufficient confidence in its ability to execute and realise these plans.

A consistent set of forecasts is used as the basis for assessing the carrying value of deferred tax assets with that used in the Group's annual impairment review of goodwill associated with Sky Deutschland, as described in note 1 and note 12.

#### iii. Acquisition accounting and goodwill (see note 12)

Judgement is required in determining the fair value of identifiable assets, liabilities and contingent assets and liabilities assumed in a business combination and the fair value of the consideration payable. Calculating the fair values involves the use of significant estimates and assumptions, including expectations about future cash flows, discount rates and the lives of assets following purchase. In order to determine the fair value of programming rights acquired, specifically rights partially consumed or part way through licence periods, we assess material contracts and licences to determine whether the contracts concerned would be considered favourable or unfavourable by a market participant. For partly consumed content, the Group's existing accounting policy is then applied.

Judgement is required in evaluating whether any impairment loss has arisen against the carrying amount of goodwill. This may require calculation of the recoverable amount of cash generating units to which the goodwill is associated. Such a calculation may involve estimates of the net present value of future forecast cash flows and selecting an appropriate discount rate. Alternatively, it may involve a calculation of the estimated fair value less costs to sell of the applicable cash generating unit.

Judgement is required in identifying the cash generating units to which the goodwill is associated for the purposes of goodwill impairment testing. Identification of cash generating units involves an assessment of whether assets or groups of assets generate cash flows that are largely independent of other assets or groups of assets. Goodwill is then allocated to each identified cash generating unit that is expected to benefit from the synergies of the business combinations from which goodwill has arisen. The carrying value of the Group's goodwill balance is disclosed in note 12, allocated by cash generating unit.

#### iv. Intangible assets and property, plant and equipment (see notes 13 and 14)

The assessment of the useful economic lives and the method of amortising these assets requires judgement. Depreciation and amortisation are charged to the income statement based on the useful economic life selected, which requires an estimation of the period and profile over which the Group expects to consume the future economic benefits embodied in the assets. The Group reviews its useful economic lives on at least an annual basis.

Determining whether the carrying amount of these assets has any indication of impairment also requires judgement. If an indication of impairment is identified, further judgement is required to assess whether the carrying amount can be supported by the net present value of future cash flows forecast to be derived from the asset. This forecast involves cash flow projections and selecting the appropriate discount rate.

Assessing whether assets meet the required criteria for initial capitalisation requires judgement. This requires a determination of whether the assets will result in future benefits to the Group. In particular, internally generated intangible assets must be assessed during the development phase to identify whether the Group has the ability and intention to complete the development successfully.



#### v. Programming inventory for broadcast (see note 18)

The key area of accounting for programming inventory for broadcast that requires judgement is the assessment of the appropriate profile over which to amortise general entertainment programming. This assessment requires the Group to form an expectation of:

- the number of times a programme will be broadcast on the Group's linear channels, and the time period over which the programme is expected to be utilised;
- the relative value associated with each broadcast; and
- the relative value associated with linear channel and non-linear programme rights. Linear channel rights refer to the rights to broadcast a programme on the Group's linear broadcast channels and non-linear rights refer to the rights to make a programme available on the Group's on demand services.

In order to perform this assessment, the Group considers the following factors:

- The frequency with which, and the time period over which, the programme is expected to be utilised on the Group's linear channels and non-linear services. This is usually based on a combination of the actual period specified in the contract for the programme rights, an initial expectation of when airings will be scheduled and the alternative programming available to the Group within this period. Linear rights are consumed as and when the programmes are broadcast; non-linear rights are consumed over the period the programme is made available.
- Expectations as to the number of viewers a programme is likely to achieve for each individual broadcast on the Group's linear channels over the contractual broadcast period. The number of viewers per broadcast directly influences advertising revenue for channels, although this consideration is partly influenced by the Group's assessment of the potential impact of the publicly available information on its competitors' scheduling intentions against planned broadcasts.
- The potential benefits associated with utilising programming. Certain high-profile or high-quality programming titles have additional value to the Group, as they attract new TV customers and encourage retention of existing TV customers. As such, these programmes are able to retain more value throughout their licence period than would be indicated when considering the expected customer viewing and consumption numbers alone.
- The relative value associated with linear channel and non-linear rights is assessed based on the manner in which the Group expects to utilise the programming rights and the relative value perceived by customers for the Group's channels and services. Those relative values may also differ based on the type and genre of programme. Such values are reviewed by the Group against current and expected future trends in customer viewing behaviour for the Group's programming and channels. The value apportioned to non-linear rights (in addition to any separately acquired non-linear rights) is amortised on a straight-line basis over the period of the broadcast rights, as the Group considers this to be the profile most closely aligned to its consumption of those rights. A broadcast-based amortisation model is not relevant or appropriate for this type of right as the Group makes the programmes available for a period of time rather than for a specified number of broadcasts.

## 2. Operating Segments

The Group has three reportable segments that are defined by geographic area to reflect how the Group's operations are monitored and managed. The reportable segments presented reflect the Group's management and reporting structure as viewed by the Board of Directors, which is considered to be the Group's chief operating decision maker.

Reportable segment	Description
UK and Ireland	The activities and operations of the pay TV, home communications and adjacent businesses in the UK and Ireland
Germany and Austria	The activities and operations of the pay TV and adjacent businesses in Germany and Austria
Italy	The activities and operations of the pay TV and adjacent businesses in Italy

### Segmental income statement for the year ended 30 June 2016

	UK & Ireland £m	Germany & Austria £m	Italy £m	Adjusting Items and Eliminations £m	Statutory Group Total £m
<b>Continuing Operations</b>					
Subscription	7,006	1,379	1,800	-	10,185
Transactional	146	18	33	-	197
Programme and Channel Sales	610	21	12	(1)	642
Advertising	524	52	202	-	778
Other	88	42	36	(3)	163
<b>Revenue</b>	<b>8,374</b>	<b>1,512</b>	<b>2,083</b>	<b>(4)</b>	<b>11,965</b>
Inter-segment revenue	(3)	-	(1)	4	-
<b>Revenue from external customers</b>	<b>8,371</b>	<b>1,512</b>	<b>2,082</b>	<b>-</b>	<b>11,965</b>
Programming	(3,032)	(881)	(1,250)	(54)	(5,217)
Direct network costs	(939)	-	-	-	(939)
Sales, general and administration	(2,899)	(627)	(783)	(523)	(4,832)
<b>Operating expense</b>	<b>(6,870)</b>	<b>(1,508)</b>	<b>(2,033)</b>	<b>(577)</b>	<b>(10,988)</b>
<b>EBITDA</b>	<b>1,910</b>	<b>82</b>	<b>186</b>	<b>(208)</b>	<b>1,970</b>
Depreciation and amortisation	(406)	(78)	(136)	(373)	(993)
<b>Operating profit</b>	<b>1,504</b>	<b>4</b>	<b>50</b>	<b>(581)</b>	<b>977</b>
Share of results of joint ventures and associates					2
Investment income					17
Finance costs					(244)
<b>Profit before tax</b>					<b>752</b>

## Segmental income statement for the year ended 30 June 2015

	Results for full year					
	UK & Ireland £m	Germany & Austria £m	Italy £m	Adjusting Items and Eliminations £m	Germany & Austria, Italy pre-acquisition £m	Statutory Group Total £m
<b>Continuing Operations</b>						
Subscription	6,596	1,256	1,845	-	(1,179)	8,518
Transactional	120	18	35	-	(20)	153
Programme and Channel Sales	515	20	16	(1)	(9)	541
Advertising	510	44	162	-	(67)	649
Other	95	39	28	(9)	(25)	128
<b>Revenue</b>	<b>7,836</b>	<b>1,377</b>	<b>2,086</b>	<b>(10)</b>	<b>(1,300)</b>	<b>9,989</b>
Inter-segment revenue	(16)	-	-	10	6	-
<b>Revenue from external customers</b>	<b>7,820</b>	<b>1,377</b>	<b>2,086</b>	<b>-</b>	<b>(1,294)</b>	<b>9,989</b>
Programming	(2,865)	(764)	(1,258)	(9)	724	(4,172)
Direct network costs	(840)	-	-	-	-	(840)
Sales, general and administration	(2,781)	(624)	(767)	(377)	544	(4,005)
<b>Operating expense</b>	<b>(6,486)</b>	<b>(1,388)</b>	<b>(2,025)</b>	<b>(386)</b>	<b>1,268</b>	<b>(9,017)</b>
<b>EBITDA</b>	<b>1,740</b>	<b>74</b>	<b>216</b>	<b>(163)</b>	<b>(129)</b>	<b>1,738</b>
Depreciation and amortisation	(390)	(85)	(155)	(233)	97	(766)
<b>Operating profit (loss)</b>	<b>1,350</b>	<b>(11)</b>	<b>61</b>	<b>(396)</b>	<b>(32)</b>	<b>972</b>
Share of results of joint ventures and associates						28
Investment income						8
Finance costs						(283)
Profit on disposal of available-for-sale investments						492
Profit on disposal of associate						299
<b>Profit before tax</b>						<b>1,516</b>

Results for each segment are presented on an adjusted basis. A reconciliation of statutory to adjusted profit is shown in note 10 which also includes a description of the adjusting items. Transactions between segments are recorded based on estimated market prices.

Revenue from Programme and Channel Sales was previously labelled Wholesale and Syndication.

Revenue of £7908 million (2015: £7,387 million) arises from goods and services provided to the UK and revenue of £4,057 million (2015: £2,602 million) arises from services provided to other countries. Non-current assets located in the UK were £10,686 million (2015: £9,562 million) and non-current assets located outside the UK were £755 million (2015: £609 million).

Included within operating expenses for the year ended 30 June 2016 are:

- Costs of £142 million (2015: £105 million) relating to corporate restructuring and efficiency programmes. These costs have been recognised as follows:
  - £28 million (2015: £10 million) within Programming
  - £114 million (2015: £95 million) within Sales, general and administration ('SG&A')
- Costs of £84 million (2015: £10 million) relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group. These costs have been recognised as follows:
  - £18 million (2015: nil) within Programming
  - £66 million (2015: £10 million) within SG&A
- Costs of £4 million (2015: £50 million) relating to advisory and transaction fees incurred on the purchase of Sky Deutschland and Sky Italia recognised within SG&A.
- Costs of £343 million (2015: £231 million) relating to the amortisation of acquired intangible assets recognised within SG&A.
- Costs of £8 million (2015: nil) relating to the remeasurement of derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness within Programming.

For the period between the date of purchase of Sky Deutschland and Sky Italia and 30 June 2015, Sky Deutschland contributed a £25 million loss to the Group's profit after tax, and Sky Italia contributed a £13 million profit to the Group's profit after tax.

### 3. Discontinued operations

On 19 March 2015, the Group completed the sale of a controlling stake in its online betting and gaming business, Sky Betting & Gaming ('Sky Bet'), to funds advised by CVC Capital Partners and members of the Sky Bet management team. Sky has retained an equity stake of 20% post completion in Sky Bet.

Sky Bet represented a separate major line of business for the Group. As a result its operations have been treated as discontinued for the year ended 30 June 2015. A single amount is shown on the face of the consolidated income statement comprising the post-tax result of discontinued operations and the post-tax profit recognised on the disposal of the discontinued operation. A pre-tax profit of £600 million arose on the disposal of Sky Bet, being the net proceeds of disposal less the carrying amount of Sky Bet's net liabilities and attributable goodwill.

The results of discontinued operations, which have been included in the consolidated income statement, were as follows:

	2015 To 19 March <sup>(1)</sup> £m
Revenue	158
Operating expense	(128)
<b>Operating profit</b>	<b>30</b>
Profit on disposal	600
<b>Profit before tax</b>	<b>630</b>
Attributable tax expense <sup>2</sup>	(10)
<b>Profit for the year from discontinued operations</b>	<b>620</b>

1 Results for the year ended 30 June 2015 include the results of discontinued operations up to the date of disposal (19 March 2015).

2 Attributable tax expense comprises £9 million in respect of operating activities and £1 million arising as a result of the disposal.

The net liabilities of Sky Bet at the date of disposal were:

	19 March 2015 £m
<b>Non-current assets</b>	
Property, plant and equipment	9
Deferred tax assets	1
	<b>10</b>
<b>Current assets</b>	
Trade and other receivables	5
Cash and cash equivalents	30
	<b>35</b>
<b>Total assets</b>	<b>45</b>
<b>Current liabilities</b>	
Trade and other payables	58
Provisions	6
	<b>64</b>
<b>Total liabilities</b>	<b>64</b>
<b>Net liabilities</b>	<b>19</b>
Total consideration	730
Net liabilities disposed	19
Attributable goodwill	(149)
<b>Profit on disposal</b>	<b>600</b>

The portion of the profit on disposal relating to measuring the retained 20% investment at its fair value is set out below:

	19 March 2015 £m
Fair value of retained investment	86
Net liabilities disposed relating to retained investment	4
Attributable goodwill relating to retained investment	(30)
<b>Profit attributable to remeasuring retained equity stake</b>	<b>60</b>
Consideration received in cash and cash equivalents	598
Less: cash and cash equivalents disposed of	(30)
<b>Net cash inflow arising on disposal</b>	<b>568</b>

There were no discontinued operations in the current year.

## 4. Investment income and finance costs

	2016 £m	2015 £m
<b>Investment income</b>		
Interest on cash, cash equivalents and short-term deposits	9	8
Interest on other loans and receivables	8	-
	<b>17</b>	<b>8</b>
	2016 £m	2015 £m
<b>Finance costs</b>		
<b>- Interest payable and similar charges</b>		
Facility related costs	(6)	(44)
Guaranteed Notes (see note 22)	(224)	(214)
Finance lease interest	(8)	(7)
	<b>(238)</b>	<b>(265)</b>
<b>- Other finance income (expense)</b>		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	(12)	(16)
Remeasurement of other derivative financial instruments (not qualifying for hedge accounting)	6	(3)
Gain arising on derivatives in a designated fair value hedge accounting relationship	1	7
Loss arising on adjustment for hedged item in a designated fair value hedge accounting relationship	(1)	(6)
	<b>(6)</b>	<b>(18)</b>
	<b>(244)</b>	<b>(283)</b>

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 2.8% (2015: 3.1%) to expenditure on such assets. The amount capitalised in the current year amounted to £14 million (2015: £9 million). Tax relief in the current year on capitalised interest totals £1.5 million (2015: £0.4 million).

In the prior year finance costs included £57 million incurred in connection with £6.6 billion of firm underwritten debt facilities and other associated transaction costs relating to the purchase of Sky Deutschland and Sky Italia. These facilities including the previous revolving credit facility ('RCF') were repaid or cancelled in the prior year with the exception of a £1 billion RCF which remains undrawn.

## 5. Profit on disposal of available-for-sale investments

On 17 July 2014, the Group sold a shareholding of 6.4% in ITV plc, consisting of 259,820,065 ITV shares for an aggregate consideration of £481 million. A profit of £429 million was realised on disposal, being the excess of the consideration above the previously written-down value of the shares for accounting purposes (£52 million).

On 5 November 2014, the Group sold a further shareholding of 0.8% in ITV plc, consisting of 31,864,665 ITV shares for an aggregate consideration of £65 million. A profit of £58 million was realised on disposal, being the excess of the consideration above the previously written-down value of the shares for accounting purposes (£7 million).

The Group recognised a gain of £5 million as a result of measuring to fair value its equity interest in Sky Deutschland held prior to the acquisition.

## 6. Profit on disposal of associate

On 12 November 2014, the Group transferred a shareholding of 21% in NGC Network International LLC and a shareholding of 21% in NGC Network Latin America LLC to 21st Century Fox, Inc. ('21st Century Fox') for an aggregate consideration of £410 million as part of the purchase of Sky Italia. A profit of £299 million was realised on disposal.

## 7. Profit before taxation

Profit before taxation is stated after charging:

	2016 £m	2015 £m
Cost of inventories recognised as an expense	4,088	3,331
Depreciation, impairment and losses (profits) on disposals of property, plant and equipment	356	297
Amortisation, impairment and losses (profits) on disposals of intangible assets	637	469
Rentals on operating leases and similar arrangements	95	70

### Foreign exchange

Foreign exchange gains recognised in the income statement during the year amounted to £14 million (2015: gains of £14 million).

## 7. Profit before taxation (continued)

### Audit fees

An analysis of auditor's remuneration is as follows:

	2016 £m	2015 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	2.4	2.0
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	0.5	0.3
<b>Total audit fees</b>	<b>2.9</b>	<b>2.3</b>
Audit-related services	0.3	0.2
Taxation services	0.8	1.5
Other assurance services	0.3	0.8
Other advisory services	6.4	11.4
Transaction services	-	1.9
<b>Total non-audit fees</b>	<b>7.8</b>	<b>15.8</b>

Other assurance services principally relate to The Bigger Picture assurance and financing comfort procedures.

Deloitte Germany and Deloitte Italy provided technology consulting and advisory services to Sky Deutschland and Sky Italia during the year. As described in the Report of the Audit Committee, these services were reviewed regularly throughout the year in order to ensure the continued independence of Deloitte LLP as auditors of the Group. The total fees for these services was £6.4 million (2015: £11.4 million). The total fees for non-audit services provided to Sky Deutschland and Sky Italia in the full prior year were £15.7 million and the table above includes those services provided to Sky Deutschland and Sky Italia by Deloitte since 12 November 2014.

Total audit fees payable to the component auditors of Sky Deutschland and Sky Italia for the full prior year were £1.1 million.

## 8. Employee benefits and key management compensation

### a) Group employee benefits

	2016 £m	2015 £m
Wages and salaries	1,190	1,040
Social security costs	184	159
Costs of employee share option schemes <sup>1</sup>	100	96
Contributions to the Group's pension schemes <sup>2</sup>	40	39
	<b>1,514</b>	<b>1,334</b>

1 £100 million relates to equity-settled share-based payments (2015: £91 million) and nil relates to cash-settled share-based payments (2015: £5 million).

2 The Group operates defined contribution pension schemes. The pension charge for the year represents the cost of contributions payable by the Group to the schemes during the year. The amount payable to the schemes by the Group at 30 June 2016 was £6 million (2015: £5 million).

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

	2016 Number	2015 Number
Channels and services	5,033	5,089
Customer service, sales and marketing	15,712	15,487
Transmission and technology	4,686	4,156
Management and administration	2,510	2,328
	<b>27,941</b>	<b>27,060</b>

There are approximately 959 (2015: 921) temporary staff included within the average number of full-time equivalent persons employed by the Group.

### b) Key management compensation (see note 30d)

	2016 £m	2015 £m
Short-term employee benefits	6	6
Share-based payments	9	8
	<b>15</b>	<b>14</b>

Post-employment benefits were less than £1 million (2015: less than £1 million). The amounts disclosed for key management compensation are included within the disclosures in note 8(a).

## 9. Taxation

### a) Taxation recognised in the income statement

	2016 £m	2015 £m
<b>Current tax expense</b>		
Current year – UK	224	229
Adjustment in respect of prior years – UK	(29)	(39)
Current year – Overseas	19	62
<b>Total current tax charge</b>	<b>214</b>	<b>252</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences – UK	5	(21)
Adjustment in respect of prior years – UK	9	21
Origination and reversal of temporary differences – Overseas	(130)	(67)
Adjustment in respect of prior years – Overseas	(9)	(1)
<b>Total deferred tax credit</b>	<b>(125)</b>	<b>(68)</b>
<b>Taxation</b>	<b>89</b>	<b>184</b>

### b) Taxation recognised directly in equity

	2016 £m	2015 £m
Current tax credit relating to share-based payments	(21)	(2)
Deferred tax charge (credit) relating to share-based payments	21	(15)
Deferred tax charge relating to cash flow hedges	46	20
	<b>46</b>	<b>3</b>

### c) Reconciliation of effective tax rate

The tax expense for the year is lower (2015: lower) than the expense that would have been charged using the blended rate of corporation tax in the UK (20.0%) applied to profit before tax. The applicable enacted or substantively enacted effective rate of UK corporation tax for the year was 20.0% (2015: 20.75%). The differences are explained below:

	2016 £m	2015 £m
Profit before tax from continuing operations:	752	1,516
Profit before tax multiplied by blended rate of corporation tax in the UK of 20.0% (2015: 20.75%)	150	315
Effects of:		
Different statutory tax rates of overseas jurisdictions	(29)	(12)
Disposal of Group investments	(2)	(125)
Net effect of other non-taxable/non-deductible items	26	28
Effect of tax rate changes	(27)	(3)
Adjustments in respect of prior years	(29)	(19)
<b>Taxation</b>	<b>89</b>	<b>184</b>

## 10. Earnings per share

The weighted average number of shares for the year was:

	2016 Millions of shares	2015 Millions of shares
Ordinary shares	1,719	1,706
ESOP trust ordinary shares	(12)	(16)
<b>Basic shares</b>	<b>1,707</b>	<b>1,690</b>
Dilutive ordinary shares from share options	14	21
<b>Diluted shares</b>	<b>1,721</b>	<b>1,711</b>

There are no share options (2015: none) which could potentially dilute earnings per share in the future but which have been excluded from the calculation of diluted earnings per share as they are anti-dilutive in the year.

## 10. Earnings per share (continued)

Basic and diluted earnings per share are calculated by dividing the profit for the year attributable to equity shareholders of the parent company by the weighted average number of shares for the year. In order to provide a measure of underlying performance, management have chosen to present an adjusted profit for the year which excludes items that may distort comparability. Such items arise from events or transactions that fall within the ordinary activities of the Group but which management believes should be separately identified to help explain underlying performance.

	2016 £m	2015 £m
Profit from continuing operations	663	1,332
Loss attributable to non-controlling interests	3	5
<b>Profit from continuing operations attributable to equity shareholders of the parent company</b>	<b>666</b>	<b>1,337</b>
Profit from discontinued operations	–	620
<b>Profit attributable to equity shareholders of the parent company</b>	<b>666</b>	<b>1,957</b>

	2016 £m	2015 £m
<b>Reconciliation from profit from continuing operations attributable to equity shareholders of the parent company to adjusted profit for the year attributable to equity shareholders of the parent company</b>		
Profit for the year from continuing operations attributable to equity shareholders of the parent company	666	1,337
Costs relating to corporate restructuring and efficiency programmes	142	105
Costs relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group	84	10
Advisory and transaction fees and finance costs incurred on the purchase of Sky Deutschland and Sky Italia	4	107
Amortisation of acquired intangible assets	347	228
Profit on disposal of available-for-sale investments (see note 5)	–	(492)
Profit on disposal of associate (see note 6)	–	(299)
Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness	14	18
Tax adjusting items and the tax effect of above items	(180)	(67)
<b>Adjusted profit for the year attributable to equity shareholders of the parent company</b>	<b>1,077</b>	<b>947</b>

	2016 pence	2015 pence
<b>Earnings per share from profit for the year</b>		
Basic		
Continuing operations	39.0p	79.1p
Discontinued operations	–	36.7p
Total	39.0p	115.8p
Diluted		
Continuing operations	38.7p	78.2p
Discontinued operations	–	36.2p
Total	38.7p	114.4p
<b>Adjusted earnings per share from adjusted profit for the year</b>		
Basic	63.1p	56.0p
Diluted	62.6p	55.3p

## 11. Dividends

	2016 £m	2015 £m
<b>Dividends declared and paid during the year</b>		
2014 Final dividend paid: 20.00p per ordinary share	–	340
2015 Interim dividend paid: 12.30p per ordinary share	–	209
2015 Final dividend paid: 20.50p per ordinary share	350	–
2016 Interim dividend paid: 12.55p per ordinary share	214	–
	<b>564</b>	<b>549</b>

The 2016 final dividend proposed is 20.95 pence per ordinary share being £358 million. The dividend was not declared at the balance sheet date and is therefore not recognised as a liability as at 30 June 2016.

Dividends are paid between Group companies out of profits available for distribution subject to, inter alia, the provisions of the companies' articles of association and the Companies Act 2006. The ESOP has waived its rights to dividends.



## 12. Goodwill

	£m
Carrying value	
At 1 July 2014	1,019
Purchase of Sky Deutschland	2,848
Purchase of Sky Italia	752
Disposal of Sky Bet	(149)
Foreign exchange movements	(344)
Other	34
<b>At 30 June 2015</b>	<b>4,160</b>
Foreign exchange movements	546
Other	7
<b>At 30 June 2016</b>	<b>4,713</b>

Goodwill has principally arisen from the Group's purchases of Sky Deutschland, Sky Italia, British Interactive Broadcasting ('BiB'), Easynet's UK broadband network assets and residential activities, 365 Media's content activities, Amstrad, Living TV, The Cloud and the O2 consumer broadband and fixed-line telephony business.

Goodwill, allocated by cash generating unit, is analysed as follows:

	2016 £m	2015 £m
UK & Ireland <sup>1</sup>	911	904
Germany & Austria <sup>2</sup>	3,018	2,576
Italy <sup>3</sup>	784	680
	<b>4,713</b>	<b>4,160</b>

Impairment reviews were performed on these goodwill balances at 30 June 2016, which did not indicate impairment.

Recoverable amounts for each of the cash generating units were calculated on the basis of value in use, using cash flows calculated for the next five years as forecast by management. A long-term growth rate of 3% was applied to all units in order to extrapolate cash flow projections beyond this period (2015: 3%). The cash flows of the UK and Ireland CGU were discounted using a pre-tax discount rate of 8% (2015: 8%), the cash flows of the Germany and Austria CGU were discounted using a pre-tax discount rate of 7% (2015: 7%) and the cash flows of the Italy CGU were discounted using a pre-tax discount rate of 9% (2015: 8%).

In determining the applicable discount rate, management applied judgement in respect of several factors, which included, inter alia: assessing the risk attached to future cash flows and making reference to the capital asset pricing model (the 'CAPM'). Management gave consideration to the selection of appropriate inputs to the CAPM, which included the risk free rate, the equity risk premium and a measure of systematic risk. Management also considered capital structure and an appropriate cost of debt in arriving at the discount rate.

The key assumptions, on which the forecast five-year cash flows of each unit were based, include the number of gross customer additions, the rate of churn, the average revenue per user, levels of programming spend, acquisition costs per customer and anticipated changes in the product mix and marketing mix of the broadcast activities. The values assigned to each of these assumptions were determined based on the extrapolation of historical trends within the Group, and external information on expected future trends in the entertainment and communications industry in each territory.

### 1. UK and Ireland

The UK and Ireland unit includes goodwill arising from the purchase of BiB, Easynet's UK broadband network assets and residential activities, 365 Media's content activities, Amstrad, Living TV, The Cloud and the O2 consumer broadband and fixed-line telephony business. The UK and Ireland unit includes intangibles with indefinite lives of £31 million (2015: £25 million).

### 2. Germany and Austria

The Germany and Austria unit includes goodwill arising from the purchase of Sky Deutschland.

### 3. Italy

The Italy unit includes goodwill arising from the purchase of Sky Italia. The Italy unit includes intangibles with indefinite lives of £546 million (2015: £457 million).

## 13. Intangible assets

	Trademarks £m	Internally generated intangible assets £m	Software development (external) and software licences £m	Customer contracts and related customer relationships <sup>1</sup> £m	Other intangible assets £m	Internally generated intangible assets not yet available for use £m	Acquired intangible assets not yet available for use £m	Total £m
<b>Cost</b>								
At 1 July 2014	18	498	558	203	338	71	86	1,772
Additions from business combinations	457	-	105	3,070	28	-	21	3,681
Additions	5	76	75	-	60	111	35	362
Disposals	(4)	(18)	(145)	-	(1)	-	-	(168)
Transfers	-	60	22	-	2	(60)	(24)	-
Foreign exchange movements	-	-	(12)	(294)	(1)	-	(2)	(309)
<b>At 30 June 2015</b>	<b>476</b>	<b>616</b>	<b>603</b>	<b>2,979</b>	<b>426</b>	<b>122</b>	<b>116</b>	<b>5,338</b>
Additions from business combinations	-	-	-	2	18	-	-	20
Additions	1	96	62	-	70	108	127	464
Disposals	-	(44)	(48)	(6)	(9)	-	-	(107)
Transfers	-	82	22	-	1	(82)	(23)	-
Foreign exchange movements	69	-	27	476	4	-	8	584
<b>At 30 June 2016</b>	<b>546</b>	<b>750</b>	<b>666</b>	<b>3,451</b>	<b>510</b>	<b>148</b>	<b>228</b>	<b>6,299</b>
<b>Amortisation</b>								
At 1 July 2014	7	239	397	48	271	-	-	962
Amortisation	1	84	88	231	60	-	-	464
Disposals	(4)	(18)	(145)	-	(1)	-	-	(168)
Impairments	-	4	1	-	-	-	-	5
Foreign exchange movements	-	-	(1)	(8)	-	-	-	(9)
<b>At 30 June 2015</b>	<b>4</b>	<b>309</b>	<b>340</b>	<b>271</b>	<b>330</b>	<b>-</b>	<b>-</b>	<b>1,254</b>
<b>Amortisation</b>								
Amortisation	-	113	100	340	73	-	-	626
Disposals	-	(44)	(48)	(6)	-	-	-	(98)
Impairments	-	7	3	4	2	-	-	16
Foreign exchange movements	1	-	10	44	-	-	-	55
<b>At 30 June 2016</b>	<b>5</b>	<b>385</b>	<b>405</b>	<b>653</b>	<b>405</b>	<b>-</b>	<b>-</b>	<b>1,853</b>
<b>Carrying amounts</b>								
At 1 July 2014	11	259	161	155	67	71	86	810
At 30 June 2015	472	307	263	2,708	96	122	116	4,084
<b>At 30 June 2016</b>	<b>541</b>	<b>365</b>	<b>261</b>	<b>2,798</b>	<b>105</b>	<b>148</b>	<b>228</b>	<b>4,446</b>

1 In the current year, intangible assets of £7 million were derecognised as part of the disposal of a subsidiary.

The estimated future amortisation charge on intangible assets with finite lives for each of the next five years is set out below. It is likely that future amortisation will vary from the figures below as the estimate does not include the impact of any future investments, disposals or capital expenditure.

Year ending	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m
Estimated amortisation charge	469	387	323	256	220

Within intangible assets there are certain assets with indefinite useful lives. The carrying value of these assets is £577 million (2015: £482 million).

The Group's internally generated intangible assets relate principally to software development associated with our customer management systems and set-top boxes. The Group's other intangible assets mainly include copyright licences and connection fees.

As part of the acquisition of Sky Italia the Group acquired the rights to use trademarks in certain territories. The rights to use trademarks in certain territories are considered to have indefinite lives because the Group has the intention and ability to consume these rights over an indefinite period. An impairment review of the assets is performed annually as part of the Group's impairment reviews of its CGUs (note 12).

Included within customer contracts and related customer relationships are intangible assets with a net book value of £1,584 million (2015: £1,522 million) and a remaining useful life of 14 years (2015: 15 years) relating to the acquired customer base in Germany and Austria and intangible assets with a net book value of £1,077 million (2015: £1,057 million) and a remaining useful life of 14 years (2015: 15 years) relating to the acquired customer base in Italy.

## 14. Property, plant and equipment

	Freehold land and buildings <sup>2</sup> £m	Leasehold improvements £m	Equipment, furniture and fixtures £m	Owned set-top boxes £m	Assets not yet available for use £m	Total <sup>1,3</sup> £m
<b>Cost</b>						
At 1 July 2014	369	57	1,478	-	107	2,011
Additions from business combinations	-	38	73	355	64	530
Additions	3	3	105	16	261	388
Disposals	(5)	-	(78)	(8)	(1)	(92)
Transfers	24	-	39	45	(108)	-
Foreign exchange movements	-	(3)	(8)	(36)	(6)	(53)
<b>At 30 June 2015</b>	<b>391</b>	<b>95</b>	<b>1,609</b>	<b>372</b>	<b>317</b>	<b>2,784</b>
Additions from business combinations	-	-	3	-	-	3
Additions	4	4	136	128	328	600
Disposals	-	(2)	(70)	(27)	-	(99)
Transfers	19	-	82	71	(172)	-
Foreign exchange movements	-	7	15	72	8	102
<b>At 30 June 2016</b>	<b>414</b>	<b>104</b>	<b>1,775</b>	<b>616</b>	<b>481</b>	<b>3,390</b>
<b>Depreciation</b>						
At 1 July 2014	54	40	829	-	-	923
Depreciation	10	10	194	84	-	298
Impairments	2	-	4	-	-	6
Disposals	(5)	-	(78)	(3)	-	(86)
Foreign exchange movements	-	-	(1)	(2)	-	(3)
<b>At 30 June 2015</b>	<b>61</b>	<b>50</b>	<b>948</b>	<b>79</b>	<b>-</b>	<b>1,138</b>
Depreciation	12	11	190	126	-	339
Impairments	-	-	11	-	-	11
Disposals	-	(2)	(69)	(18)	-	(89)
Foreign exchange movements	-	1	4	29	-	34
<b>At 30 June 2016</b>	<b>73</b>	<b>60</b>	<b>1,084</b>	<b>216</b>	<b>-</b>	<b>1,433</b>
<b>Carrying amounts</b>						
At 1 July 2014	315	17	649	-	107	1,088
At 30 June 2015	330	45	661	293	317	1,646
<b>At 30 June 2016</b>	<b>341</b>	<b>44</b>	<b>691</b>	<b>400</b>	<b>481</b>	<b>1,957</b>

1 The amounts shown include assets held under finance leases with a net book value of £25 million (2015: £31 million). The cost of these assets was £54 million (2015: £48 million) and the accumulated depreciation was £29 million (2015: £17 million). Depreciation charged during the year on such assets was £12 million (2015: £8 million).

2 Depreciation was not charged on £88 million of land (2015: £88 million).

3 In the current year, property, plant and equipment of £1 million was disposed of as part of the disposal of a subsidiary. As part of the disposal of Sky Bet, which has been treated as a discontinued operation (note 3), property, plant and equipment with a carrying value of £9 million was disposed of in the prior year. In addition, £4 million of depreciation in the prior year related to Sky Bet.

## 15. Investments in joint ventures and associates

A list of the Group's investments in joint ventures and associates, including the name, country of incorporation and proportion of ownership interest is given in note 31 to the consolidated financial statements.

The movement in joint ventures and associates during the year was as follows:

	2016 £m	2015 £m
Share of net assets:		
At 1 July	133	173
Movement in net assets		
- Funding	8	10
- Dividends received	(20)	(25)
- Share of profits	2	28
- Acquisition of associate <sup>1</sup>	1	86
- Disposal of associates <sup>2</sup>	-	(149)
- Exchange differences on translation of foreign joint ventures and associates	(1)	10
<b>At 30 June</b>	<b>123</b>	<b>133</b>

1 During the prior year, the Group sold a controlling stake in Sky Bet and retained an equity stake of 20% in Sky Bet. See note 3 for further details.

2 During the prior year, the Group disposed of its interest in NGC Network International LLC and NGC Network Latin America LLC. See note 6 for further details.

The Group's share of any capital commitments and contingent liabilities of associates and joint ventures is shown in note 28.

## 15. Investments in joint ventures and associates (continued)

### a) Investments in associates

Representing 100% of the Group's investment in Sky Bet:

	2016 £m	2015* £m
Non-current assets	759	771
Current assets	146	101
Current liabilities	(108)	(81)
Non-current liabilities	(863)	(803)
<b>Shareholders' deficit</b>	<b>(66)</b>	<b>(12)</b>
Group's share of shareholders' deficit	(13)	(2)
Consolidation and other adjustments	91	91
<b>Investment in associates</b>	<b>78</b>	<b>89</b>
Revenue	372	80
(Loss) profit after tax	(53)	13

\* For the period from 19 March 2015 to 30 June 2015

No dividends were received in either the current year or prior period.

For the period between 1 July 2014 and the disposal of NGC Network International LLC and NGC Network Latin America LLC, their revenue was £119 million and profit for the period was £36 million.

### b) Investments in joint ventures

Representing the Group's share of each joint venture:

	2016 £m	2015 £m
Non-current assets	13	12
Current assets	83	77
Current liabilities	(41)	(36)
Non-current liabilities	(92)	(61)
<b>Shareholders' deficit</b>	<b>(37)</b>	<b>(8)</b>
Revenue	105	106
Expense	(88)	(91)
Taxation	(3)	(3)
<b>Share of profit from joint ventures</b>	<b>14</b>	<b>12</b>

The aggregate carrying amount of the investments in joint ventures that are not individually material for the Group is £45 million as at 30 June 2016 (2015: £44 million).

## 16. Available-for-sale investments

	2016 £m	2015 £m
Listed investments	-	3
Unlisted investments	71	28
	<b>71</b>	<b>31</b>

The Group's listed investments are carried at fair value and the fair value is determined with reference to the equity share price at the balance sheet date. Unlisted investments consist of minority equity stakes in a number of technology and start-up companies.

During the current year, the Group purchased investments in iflix Limited (£32 million), DataXu Inc. (£7 million) and fuboTV Inc. (£4 million). Other principal investments include Roku Inc. and Whistle Sports.

During the current year, the Group disposed of its investments in Elemental Technologies and 1Mainstream.

## 17. Deferred tax

### i) Recognised deferred tax assets (liabilities)

	Accelerated tax depreciation £m	Intangibles on business combinations £m	Tax losses £m	Short-term temporary differences £m	Share-based payments temporary differences £m	Financial instruments temporary differences £m	Total £m
At 1 July 2014	3	1	-	4	28	(6)	30
(Charge) credit to income	(28)	61	21	(3)	16	(2)	65
Credit (charge) to equity	-	-	-	-	15	(20)	(5)
Acquisition of subsidiaries	-	(895)	589	90	-	(1)	(217)
Effect of change in tax rate							
- Income	3	-	-	-	-	-	3
Foreign exchange movements	2	81	(57)	(8)	-	-	18
<b>At 30 June 2015</b>	<b>(20)</b>	<b>(752)</b>	<b>553</b>	<b>83</b>	<b>59</b>	<b>(29)</b>	<b>(106)</b>
(Charge) credit to income	(11)	78	45	(13)	(8)	7	98
Charge to equity	-	-	-	-	(21)	(49)	(70)
Acquisition of subsidiaries	-	(4)	-	-	-	-	(4)
Effect of change in tax rate							
- Income	1	33	(2)	(3)	(2)	-	27
- Equity	-	-	-	-	-	3	3
Foreign exchange movements	(5)	(116)	100	12	-	(2)	(11)
<b>At 30 June 2016</b>	<b>(35)</b>	<b>(761)</b>	<b>696</b>	<b>79</b>	<b>28</b>	<b>(70)</b>	<b>(63)</b>

Deferred tax assets have been recognised at 30 June 2016 and 30 June 2015 on the basis that, from management's current forecast of the Group's entities, it is probable that there will be suitable taxable profits against which these assets can be utilised. The carrying value of deferred tax assets in excess of deferred tax liabilities principally arising on the acquisition of Sky Deutschland was £243 million as at 30 June 2016 (2015: £147 million). The majority of the deferred tax asset relates to tax losses in the German and Austrian businesses, which can be carried forward indefinitely.

The Directors have concluded that it is probable that there will be sufficient future taxable profits against which the German and Austrian losses can be utilised, taking into account the Group's latest available five-year forecast, which was considered by the Company's Board of Directors, and extrapolated beyond the forecast period as disclosed in note 12. The forecast shows that the Group will continue to benefit from the utilisation of the tax losses beyond the initial five-year forecasting period.

For further details regarding this judgement, please refer to the Group's 'critical accounting policies and the use of judgement and estimates' section, contained in note 1.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which they reverse. The rate enacted or substantively enacted for the relevant periods of reversal are: 19.0% from 1 April 2017 and 18.0% from 1 April 2020 in the UK (2015: 20.0%); 31.4% up to June 2017 and 28.1% thereafter in Italy (2015: 31.4%); and 27.4% in Germany (2015: 27.4%).

The UK Government announced a reduction in the main rate of UK corporation tax to 17.0% from 1 April 2020. The reduction to 17.0% has not been substantively enacted and has not therefore been reflected in the figures above. The impact of the future rate reduction will be accounted for to the extent that it is enacted at future balance sheet dates, however, it is estimated that this will not have a material impact on the Group. Certain deferred tax assets and liabilities have been offset jurisdiction by jurisdiction:

	2016 £m	2015 £m
Deferred tax assets	245	175
Deferred tax liabilities	(308)	(281)
	<b>(63)</b>	<b>(106)</b>

### ii) Unrecognised deferred tax assets

	2016 £m	2015 £m
Tax losses arising from trading (gross 2016: £1,548 million, 2015: £1,352 million)	245	219
Tax losses arising from capital disposals and provisions against investments (gross 2016: £1,380 million, 2015: £1,388 million)	262	278
	<b>507</b>	<b>497</b>

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilise the losses.

At 30 June 2016, a deferred tax asset of £1 million (2015: £9 million) principally arising from UK trading losses in the Group has not been recognised. These losses can only be offset against taxable profits generated in the entities concerned. There is currently insufficient evidence to support the recognition of a deferred tax asset relating to these losses. The UK trading losses can be carried forward indefinitely.

At 30 June 2016, a deferred tax asset of £244 million (2015: £210 million) has not been recognised in respect of overseas trading losses on the basis that it is not probable that these temporary differences will be utilised. These losses include £243 million (2015: £207 million) with respect to the Group's former investment in KirchPayTV and £1 million (2015: £3 million) with respect to other subsidiaries.

At 30 June 2016, a deferred tax asset of £258 million (2015: £274 million) has not been recognised in respect of capital losses related to the Group's former investment in KirchPayTV, on the basis that utilisation of these temporary differences is not probable. At 30 June 2016, the Group also has capital losses with a tax value estimated to be £4 million (2015: £4 million) including impairment of a football club and other investments, which have not been recognised as a deferred tax asset, on the basis that it is not probable that they will be utilised. The capital losses can be carried forward indefinitely.

## 18. Inventories

	2016 £m	2015 £m
Television programme rights	940	811
Set-top boxes and related equipment	26	26
Other inventories	24	10
<b>Current inventory</b>	<b>990</b>	<b>847</b>
Non-current programme distribution rights	36	31
<b>Total inventory</b>	<b>1,026</b>	<b>878</b>

At 30 June 2016, 80% (2015: 75%) of the television programme rights and 100% (2015: 100%) of set-top boxes and related equipment and other inventories is expected to be recognised in the income statement within 12 months.

Inventories with a carrying value of £25 million (2015: £3 million) were written-down in the year.

## 19. Trade and other receivables

	2016 £m	2015 £m
Gross trade receivables	441	337
Less: provision for impairment of receivables	(96)	(70)
<b>Net trade receivables</b>	<b>345</b>	<b>267</b>
Amounts receivable from joint ventures and associates	13	19
Amounts receivable from other related parties	20	26
Prepayments	527	499
Accrued income	332	216
VAT	2	3
Other receivables	110	66
<b>Current trade and other receivables</b>	<b>1,349</b>	<b>1,096</b>
Prepayments	8	6
Amounts receivable from joint ventures and associates	77	70
Other receivables	10	10
<b>Non-current trade and other receivables</b>	<b>95</b>	<b>86</b>
<b>Total trade and other receivables</b>	<b>1,444</b>	<b>1,182</b>

Included within current trade and other receivables is nil (2015: nil) which is due in more than one year.

The ageing of the Group's net trade receivables which are past due but not impaired is as follows:

	2016 £m	2015 £m
Up to 30 days past due date	61	27
30 to 60 days past due date	14	8
60 to 120 days past due date	4	4
120+ days past due date	3	1
	<b>82</b>	<b>40</b>

The Directors consider that the carrying amount of trade and other receivables approximates their fair values. The Group is exposed to credit risk on its trade and other receivables, however the Group does not have any significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers. Trade receivables principally comprise amounts outstanding from subscribers, advertisers and other customers.

### Provisions for doubtful debts

	2016 £m	2015 £m
Balance at beginning of year	70	95
Amounts utilised	(42)	(65)
Provided during the year	68	40
<b>Balance at end of year</b>	<b>96</b>	<b>70</b>

## 20. Trade and other payables

	2016 £m	2015 £m
Trade payables	1,421	1,361
Amounts owed to joint ventures and associates	14	16
Amounts owed to other related parties	181	175
VAT	246	155
Accruals	1,375	1,160
Deferred income	462	401
Other payables	203	162
<b>Current trade and other payables</b>	<b>3,902</b>	<b>3,430</b>
Trade payables	34	31
Amounts owed to other related parties	1	5
Deferred income	7	6
Other payables	39	52
<b>Non-current trade and other payables</b>	<b>81</b>	<b>94</b>
<b>Total trade and other payables</b>	<b>3,983</b>	<b>3,524</b>

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

## 21. Provisions

	At 1 July 2014 £m	Acquisition of subsidiaries £m	Disposal of subsidiaries £m	Reclassified during the year £m	Provided during the year £m	Utilised during the year £m	Foreign exchange movement £m	At 1 July 2015 £m	Reclassified during the year £m	Provided during the year £m	Utilised during the year £m	Foreign exchange movement £m	At 30 June 2016 £m
<b>Current liabilities</b>													
Restructuring provision <sup>1</sup>	22	10	-	-	9	(19)	(1)	21	4	20	(17)	1	29
Customer-related provisions <sup>2</sup>	2	-	-	-	31	-	-	33	-	47	(15)	-	65
Other provisions <sup>3</sup>	24	3	-	-	34	(12)	-	49	13	47	(23)	1	87
	<b>48</b>	<b>13</b>	<b>-</b>	<b>-</b>	<b>74</b>	<b>(31)</b>	<b>(1)</b>	<b>103</b>	<b>17</b>	<b>114</b>	<b>(55)</b>	<b>2</b>	<b>181</b>
<b>Non-current liabilities</b>													
Other provisions	14	20	(6)	6	25	(6)	(2)	51	(17)	32	(10)	5	61
Employee benefit obligations <sup>4</sup>	-	30	-	-	-	(1)	(3)	26	-	3	(1)	5	33
	<b>14</b>	<b>50</b>	<b>(6)</b>	<b>6</b>	<b>25</b>	<b>(7)</b>	<b>(5)</b>	<b>77</b>	<b>(17)</b>	<b>35</b>	<b>(11)</b>	<b>10</b>	<b>94</b>

1 These provisions relate to costs incurred as part of corporate restructuring and efficiency programmes.

2 These provisions include costs of a programme to replace aged customer equipment.

3 Included in current other provisions are amounts provided for legal disputes, warranty liabilities and onerous contracts for property leases and maintenance. The timing of the cash flows for onerous leases is dependent on the terms of the leases, but is expected to continue up to June 2017.

4 In the prior year, the Group acquired employee benefit obligations as part of its acquisitions of Sky Deutschland and Sky Italia on 12 November 2014. These obligations are described further below.

### Employee benefit obligations

	Acquired at 12 November 2014 £m	Pension payments £m	Actuarial losses (gains) £m	Foreign exchange movement £m	At 30 June 2015 £m	Pension payments £m	Actuarial losses (gains) £m	Foreign exchange movement £m	At 30 June 2016 £m
Sky Deutschland defined benefit obligations	10	-	1	(1)	10	-	2	2	14
Sky Italia employee benefit obligations	20	(1)	(1)	(2)	16	(1)	1	3	19
	<b>30</b>	<b>(1)</b>	<b>-</b>	<b>(3)</b>	<b>26</b>	<b>(1)</b>	<b>3</b>	<b>5</b>	<b>33</b>

## 21. Provisions (continued)

### a) Sky Deutschland

Sky Deutschland operates unfunded final salary defined benefit pension plans that are not covered by plan assets. These plans were closed to future accrual. The total defined benefit obligation at 30 June 2016 was £14 million (2015: £10 million). The amount of the pension entitlement depends on the salary of the respective employee at the time of retirement. Employee benefit obligations will be funded out of current and future earnings.

The present value of the obligations was measured using the projected unit credit method applying the following principal assumptions:

- Actuarial projections (including assumptions about cost-of-living increases, salary increases, etc.) were made to value the future benefits expected to be paid by the post-employment plan in the event of mortality (both during and after employment), disability and early retirement. Seniority and rates of employee turnover as well as salary and benefit levels at the measurement date were also taken into account in projecting future benefits;
- The average present value at the measurement date has been calculated on the basis of the assumed annual discount rate and the probability of services being rendered;
- The following specific assumptions have been used:
  - Annual discount rate of 1.50% (2015: 2.45%);
  - Annual growth rate of 2.00% (2015: 2.00%);
  - Annual salary growth rate of 2.50% (2015: 2.50%); and
  - Annual fluctuation rate employees of 7.00% (2015: 7.00%).

Since there are no plan assets as defined by IAS 19 (revised 2011) and all actuarial gains and losses are recognised when incurred, the present value of the defined benefit obligation of the pension obligations and the obligations similar to pensions is equivalent to the provision recognised on the balance sheet.

Reasonably possible changes to these assumptions would not have a material impact on the provision.

The weighted average maturity of the defined benefit obligation is 22 years (2015: 21 years) as of the balance sheet date.

Expected pension payments in the year to 30 June 2017 are less than £1 million (2015: less than £1 million).

### b) Sky Italia

Sky Italia's employee benefit obligations relate to a provision for employee retirement, determined using actuarial techniques (as discussed further below) and regulated by Article 2120 of the Italian Civil Code. These plans were closed to future accrual. The total employee benefit obligation at 30 June 2016 was £19 million (2015: £16 million). The benefit is paid upon retirement as a lump sum, the amount of which corresponds to the total of the provisions accrued during the employees' service period based on payroll costs as revalued until retirement. Employee benefit obligations will be funded out of current and future earnings.

The present value of the obligations was measured using the projected unit credit method applying the following principal assumptions:

- Actuarial projections (including assumptions about cost-of-living increases, salary increases, etc.) were made to value the future benefits expected to be paid by the post-employment plan in the event of mortality (both during and after employment), disability and early retirement. Seniority and rates of employee turnover as well as salary and benefit levels at the measurement date were also taken into account in projecting future benefits;
- The average present value at the measurement date has been calculated on the basis of the assumed annual discount rate and the probability of services being rendered;
- The following specific assumptions have been used:
  - Annual discount rate of 0.01% (2015: 0.12%);
  - Annual inflation rate of 0.40% (2015: 0.10%);
  - Annual revaluation rate of 1.80% (2015: 1.58%);
  - Annual fluctuation rate employees of 5.40% (2015: 5.39%); and
  - Annual mortality rate of 0.11% (2015: 0.10%).

Since there are no plan assets as defined by IAS 19 (revised 2011) and all actuarial gains and losses are recognised when incurred, the present value of the defined benefit obligation of the pension obligations and the obligations similar to pensions is equivalent to the provision recognised on the balance sheet.

Reasonably possible changes to these assumptions would not have a material impact on the provision.

The weighted average maturity of the defined benefit obligation is 17 years (2015: 17 years) as of the balance sheet date.

Expected pension payments in the year to 30 June 2017 are £1 million (2015: less than £1 million).



## 22. Borrowings

	2016 £m	2015 £m
<b>Current borrowings</b>		
Loan Notes	6	4
US\$750 million of 5.625% Guaranteed Notes repayable in October 2015 <sup>(i)</sup>	-	468
Obligations under finance leases <sup>(ii)</sup>	25	22
	<b>31</b>	<b>494</b>
<b>Non-current borrowings</b>		
£400 million of 5.750% Guaranteed Notes repayable in October 2017 <sup>(i)</sup>	398	399
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018 <sup>(i)</sup>	559	474
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018 <sup>(i)</sup>	435	372
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019 <sup>(i)</sup>	576	477
€600 million of Guaranteed Floating Rate Notes repayable in April 2020 <sup>(i)</sup>	499	425
£450 million of 2.875% Guaranteed Notes repayable in November 2020 <sup>(i)</sup>	470	445
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021 <sup>(i)</sup>	1,243	1,058
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022 <sup>(i)</sup>	597	504
€850 million of 1.875% Guaranteed Notes repayable in November 2023 <sup>(i)</sup>	705	602
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024 <sup>(i)</sup>	933	787
€500 million of 2.250% Guaranteed Notes repayable in November 2025 <sup>(i)</sup>	414	-
€1,000 million of 2.500% Guaranteed Notes repayable in September 2026 <sup>(i)</sup>	828	705
£300 million of 6.000% Guaranteed Notes repayable in May 2027 <sup>(i)</sup>	296	296
£300 million of 4.000% Guaranteed Notes repayable in November 2029 <sup>(i)</sup>	297	297
€400 million of 2.750% Guaranteed Notes repayable in November 2029 <sup>(i)</sup>	330	281
US\$350 million of 6.500% Guaranteed Notes repayable in October 2035 <sup>(i)</sup>	259	218
Loan Notes	1	2
Obligations under finance leases <sup>(ii)</sup>	61	76
	<b>8,901</b>	<b>7,418</b>

### (i) Guaranteed Notes

At 30 June 2016, the Group had in issue the following Guaranteed fixed and floating rate notes, which were issued by the Company:

	Hedged Value* £m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed £m	Floating £m	Fixed	Floating
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018	387	290	97	6.829%	6m LIBOR +1.892%
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	389	260	129	7.091%	6m LIBOR +5.542%
£450 million of 2.875% Guaranteed Notes repayable in November 2020	450	-	450	-	3m LIBOR +1.230%
€500 million of 2.250% Guaranteed Notes repayable in November 2025	356	356	-	3.721%	-
	<b>1,582</b>	<b>906</b>	<b>676</b>		

	Hedged Value* £m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed £m	Floating £m	Fixed	Floating
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019	581	-	581	-	3m EURIBOR +0.656%
€600 million of Guaranteed Floating Rate Notes repayable in April 2020	600	-	600	-	3m EURIBOR +0.750%
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021	1,500	1,500	-	1.500%	-
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022	689	689	-	2.118%	-
€850 million of 1.875% Guaranteed Notes repayable in November 2023	850	850	-	1.875%	-
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024	969	969	-	2.187%	-
€1,000 million of 2.500% Guaranteed Notes repayable in September 2026	1,000	1,000	-	2.500%	-
£300 million of 6.000% Guaranteed Notes repayable in May 2027	411	411	-	5.006%	-
£300 million of 4.000% Guaranteed Notes repayable in November 2029	399	399	-	3.122%	-
€400 million of 2.750% Guaranteed Notes repayable in November 2029	400	400	-	2.750%	-
	<b>7,399</b>	<b>6,218</b>	<b>1,181</b>		

## 22. Borrowings (continued)

At 30 June 2016, the Group had in issue the following Guaranteed Notes, which were issued by Sky Group Finance plc:

	Hedged Value* £m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed £m	Floating £m	Fixed	Floating
£400 million of 5.750% Guaranteed Notes repayable in October 2017	400	350	50	5.750%	6m LIBOR -0.229%
US\$350 million of 6.500% Guaranteed Notes repayable in October 2035	200	200	-	5.864%	-
	<b>600</b>	<b>550</b>	<b>50</b>		

At 30 June 2015, the Group had in issue the following Guaranteed fixed and floating rate notes, which were issued by the Company:

	Hedged Value* £m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed £m	Floating £m	Fixed	Floating
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018	387	290	97	6.829%	6m LIBOR +1.892%
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	389	260	129	7.091%	6m LIBOR +5.542%
£450 million of 2.875% Guaranteed Notes repayable in November 2020	450	-	450	-	3m LIBOR +1.230%
	<b>1,226</b>	<b>550</b>	<b>676</b>		

	Hedged Value* £m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed £m	Floating £m	Fixed	Floating
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019	581	-	581	-	3m EURIBOR +0.656%
€600 million of Guaranteed Floating Rate Notes repayable in April 2020	600	-	600	-	3m EURIBOR +0.750%
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021	1,500	1,500	-	1.500%	-
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022	689	689	-	2.118%	-
€850 million of 1.875% Guaranteed Notes repayable in November 2023	850	850	-	1.875%	-
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024	969	969	-	2.187%	-
€1,000 million of 2.500% Guaranteed Notes repayable in September 2026	1,000	1,000	-	2.500%	-
£300 million of 6.000% Guaranteed Notes repayable in May 2027	411	411	-	5.006%	-
£300 million of 4.000% Guaranteed Notes repayable in November 2029	399	399	-	3.122%	-
£400 million of 2.750% Guaranteed Notes repayable in November 2029	400	400	-	2.750%	-
	<b>7,399</b>	<b>6,218</b>	<b>1,181</b>		

At 30 June 2015, the Group had in issue the following Guaranteed Notes, which were issued by Sky Group Finance plc:

	Hedged Value* £m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed £m	Floating £m	Fixed	Floating
US\$750 million of 5.625% Guaranteed Notes repayable in October 2015	428	171	257	5.427%	6m LIBOR +0.698%
£400 million of 5.750% Guaranteed Notes repayable in October 2017	400	350	50	5.750%	6m LIBOR -0.229%
US\$350 million of 6.500% Guaranteed Notes repayable in October 2035	200	200	-	5.826%	-
	<b>1,028</b>	<b>721</b>	<b>307</b>		

\* Hedged value is the final redemption value including any hedging

The Group has a Global Medium-Term Note Programme (the 'Programme'), which provides the Group with a standardised documentation platform for senior debt issuance of up to £5 billion in the major global bond markets. The €500 million of 2.250% Guaranteed Notes maturing in November 2025, issued during the current year and the £300 million of 6.000% Guaranteed Notes maturing in May 2027 have been issued under this Programme.

## (ii) Finance leases

The minimum lease payments under finance leases fall due as follows:

	2016 £m	2015 £m
Within one year	25	22
Between one and five years	37	53
After five years	121	128
	<b>183</b>	<b>203</b>
Future finance charges on finance lease liabilities	(97)	(105)
<b>Present value of finance lease liabilities</b>	<b>86</b>	<b>98</b>

The main obligations under finance leases are in relation to:

- finance arrangements in connection with the broadband network infrastructure. During the year, repayments of £9 million (2015: £7 million) were made against the lease. A proportion of these payments have been allocated against the capital outstanding. The lease bears interest at a rate of 11.1% and expires in November 2039.
- finance arrangements in connection with the contact centre in Dunfermline. During the year, repayments of £2 million (2015: £1 million) were made against the lease. A proportion of these payments have been allocated against the capital amount outstanding. The lease bears interest at a rate of 8.5% and expires in September 2020.
- finance arrangements in connection with datacentre equipment. During the year repayments of £3 million (2015: £3 million) were made against the lease. A proportion of these payments have been allocated against the capital amount outstanding. The lease bears interest at a rate of 3.6% and expired in June 2016.
- finance arrangements in connection with set-top boxes. During the year repayments of £9 million (2015: £5 million) were made against the lease. A proportion of these payments have been allocated against the capital amount outstanding. The lease bears interest at a rate of 7% and expires in March 2017.

## (iii) Revolving Credit Facility

The Group has a £1 billion RCF with a maturity date of 30 November 2021, syndicated across 15 counterparty banks, each with a minimum credit rating of 'Baa2' or equivalent from Standard & Poor's. At 30 June 2016, the RCF was undrawn (2015: undrawn).

The Group is subject to two financial covenants under the RCF, a maximum leverage ratio and a minimum interest cover ratio, which are tested at the end of each six-monthly period. The key financial covenants are the ratio of Net Debt to EBITDA (as defined in the loan agreements) and EBITDA to Net Interest Payable (as defined in the loan agreements). Net Debt to EBITDA must be no more than 4.00:1 and EBITDA to Net Interest Payable must be at least 3.50:1. The Group was in compliance with these covenants for all periods presented.

## (iv) Guarantees

The following guarantees are in place relating to the Group's borrowings: (a) Sky UK Limited, Sky Subscribers Services Limited, Sky Group Finance plc, Sky Telecommunications Services Limited and Sky In-Home Service Limited have given joint and several guarantees in relation to the Company's £1 billion RCF and the outstanding Guaranteed Fixed and Floating Rate Notes issued by the Company; and (b) the Company, Sky UK Limited, Sky Subscribers Services Limited, Sky Telecommunications Services Limited and Sky In-Home Service Limited have given joint and several guarantees in relation to the outstanding Guaranteed Notes issued by Sky Group Finance plc.

## 23. Derivatives and other financial instruments

Set out below are the derivative financial instruments entered into by the Group to manage its interest rate and foreign exchange risks.

	2016				2015			
	Asset		Liability		Asset		Liability	
	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m
<b>Fair value hedges</b>								
Interest rate swaps	79	1,079	-	-	62	1,275	-	-
Cross-currency swaps	118	466	-	-	18	466	-	-
<b>Cash flow hedges</b>								
Cross-currency swaps	526	2,088	-	-	137	1,435	(12)	503
Forward foreign exchange contracts	361	4,095	(12)	539	148	2,191	(36)	1,065
<b>Net investment hedges</b>								
Cross-currency swaps	-	-	(240)	2,343	150	1,943	(3)	400
<b>Derivatives not in a formal hedge relationship</b>								
Cross-currency swaps	100	522	-	-	51	353	(25)	390
Forward foreign exchange contracts	50	818	(43)	702	17	244	(7)	460
Interest rate swaps	-	-	(6)	260	-	-	-	260
Embedded Derivative	-	-	(8)	86	-	-	-	-
<b>Total</b>	<b>1,234</b>	<b>9,068</b>	<b>(309)</b>	<b>3,930</b>	<b>583</b>	<b>7,907</b>	<b>(83)</b>	<b>3,078</b>

## 23. Derivatives and other financial instruments (continued)

The maturity of the derivative financial instruments is as follows:

	2016		2015	
	Asset £m	Liability £m	Asset £m	Liability £m
In one year or less	193	(50)	130	(22)
Between one and two years	299	(6)	46	(7)
Between two and five years	349	(36)	254	(40)
In more than five years	393	(217)	153	(14)
<b>Total</b>	<b>1,234</b>	<b>(309)</b>	<b>583</b>	<b>(83)</b>

The fair value of the Group's debt-related derivative portfolio at 30 June 2016 was a £577 million net asset (2015: net asset of £378 million) with notional principal amounts totalling £6,758 million (2015: £7,025 million). This comprised: net assets of £526 million designated as cash flow hedges (2015: net assets of £125 million), net assets of £197 million designated as fair value hedges (2015: net assets of £80 million), net liabilities of £240 million designated as net investment hedges (2015: net assets of £147 million) and net assets of £94 million not designated in a formal hedge relationship (2015: net assets of £26 million).

At 30 June 2016, the carrying value of financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss was nil (2015: nil).

### Hedge accounting classification and impact

The Group designated certain interest rate swaps as fair value hedges of interest rate risk and cross-currency swaps as fair value hedges of interest rate risk and foreign exchange risk, this represents 23% (2015: 25%) of the total debt related derivative portfolio. Movements in the fair value of the hedged items are taken to the income statement and are offset by movements in the fair value of the hedging instruments, to the extent that hedge accounting is achieved.

The Group designated certain fixed rate cross-currency swaps as cash flow hedges, this represents 31% (2015: 28%) of the total debt related derivative portfolio. As such, the effective portion of the gain or loss on these contracts is reported as a separate component of the hedging reserve, and is then reclassified to the income statement in the same periods that the forecast transactions affect the income statement. Cash flows on the swaps occur semi-annually up to and inclusive of the relevant bond maturity disclosed in note 22. During the current year, gains of £398 million were removed from the hedging reserve and credited to finance costs in the income statement principally to offset the currency translation movements in the underlying hedged debt (2015: gains of £145 million).

The Group designated certain cross-currency swaps as net investment hedges, this represents 35% (2015: 33%) of the total debt related derivative portfolio. Exchange differences arising from the translation of the net investment in foreign operations are recognised directly in equity. Gains and losses on those hedging instruments (which include bonds and cross-currency swaps) designated as hedges of the net investments in foreign operations are recognised in equity to the extent that the hedging relationship is effective; these amounts are as stated in the statement of comprehensive income. Gains and losses relating to hedge ineffectiveness are recognised immediately in the income statement for the period. Gains and losses accumulated in the foreign currency translation reserve are included in the income statement when the foreign operation is disposed of.

The Group designates certain forward foreign exchange contracts as cash flow hedges of forecast foreign currency sales and purchases. Gains or losses are released from the hedging reserve and recycled to the income statement in the same period as the hedged item is recognised. If forecast transactions are no longer expected to occur, any amounts included in the hedging reserve related to that forecast transaction would be recognised directly in the income statement. During the current year, gains of £31 million were removed from the hedging reserve and credited to operating expense in the income statement (2015: gains of £3 million). Gains of £29 million were removed from the hedging reserve and credited to revenue in the income statement (2015: gains of £26 million).

Hedge effectiveness testing is performed quarterly using the dollar-offset approach. The actual movement in the hedging items is compared with the movement in the valuation of the hypothetically perfect hedge of the underlying risk at inception, and any ineffectiveness is recognised directly in the income statement. For fair value hedges ineffectiveness of £1 million was recognised in the income statement during the current year (2015: £1 million). For cash flow hedges ineffectiveness of less than £1 million was recognised in the income statement during the current year (2015: less than £1 million). For net investment hedges ineffectiveness of nil was recognised in the income statement during the current year (2015: nil).

A hedge relationship is deemed to be effective if the ratio of changes in valuation of the underlying hedged item and the hedging instrument is within the range of 80% to 125%. Any relationship which has a ratio outside this range is deemed to be ineffective, at which point hedge accounting is suspended. During the year ended 30 June 2016, there was one instance in which the hedge relationship was not highly effective (2015: no instances).

## Financial instruments

### (a) Carrying value and fair value

The accounting classification of each class of the Group's financial assets and financial liabilities, together with their fair values, is as follows:

	Held to maturity investments £m	Available-for-sale £m	Derivatives deemed held for trading £m	Derivatives in hedging relationships £m	Loans and receivables £m	Other liabilities £m	Total carrying value £m	Total fair value £m
<b>At 30 June 2016</b>								
Quoted bond debt	-	-	-	-	-	(8,839)	(8,839)	(9,427)
Derivative financial instruments	-	-	93	832	-	-	925	925
Trade and other payables	-	-	-	-	-	(3,309)	(3,309)	(3,309)
Provisions	-	-	-	-	-	(204)	(204)	(204)
Obligations under finance leases and other borrowings	-	-	-	-	-	(93)	(93)	(93)
Available-for-sale investments	-	71	-	-	-	-	71	71
Trade and other receivables	-	-	-	-	1,131	-	1,131	1,131
Cash and cash equivalents	825	-	-	-	1,312	-	2,137	2,137
<b>At 30 June 2015</b>								
Quoted bond debt	-	-	-	-	-	(7,808)	(7,808)	(8,083)
Derivative financial instruments	-	-	36	464	-	-	500	500
Trade and other payables	-	-	-	-	-	(2,894)	(2,894)	(2,894)
Provisions	-	-	-	-	-	(129)	(129)	(129)
Obligations under finance leases and other borrowings	-	-	-	-	-	(104)	(104)	(104)
Available-for-sale investments	-	31	-	-	-	-	31	31
Trade and other receivables	-	-	-	-	807	-	807	807
Short-term deposits	1,100	-	-	-	-	-	1,100	1,100
Cash and cash equivalents	50	-	-	-	1,328	-	1,378	1,378

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

- The fair value of financial assets and financial liabilities (which includes our quoted bond debt), with standard terms and conditions and which are traded on active liquid markets is determined with reference to quoted market prices based on level 1 of the fair value hierarchy. The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts;
- Interest rate and cross-currency swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates; and
- The fair value of obligations under finance leases and other borrowings is estimated by discounting the future cash flows to net present value. The fair value of short-term deposits and cash and cash equivalents is equivalent to carrying value due to the short-term nature of these instruments.

The differences between carrying values and fair values reflect unrealised gains or losses inherent in the financial instruments, based on valuations as at 30 June 2016 and 30 June 2015. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

Cash and cash equivalents classified as held to maturity investments comprise money market deposits which have maturity dates of less than three months from inception. Money market deposits, enhanced return investments and tri-party repurchase agreements which have maturity greater than three months from inception are classified as short-term deposits.

Cash and cash equivalents classified as loans and receivables mainly comprise investments in AAAm rated money market funds which can be withdrawn without notice.

## 23. Derivatives and other financial instruments (continued)

### (b) Fair value hierarchy

The following table categorises the Group's financial instruments which are held at fair value into one of three levels to reflect the degree to which observable inputs are used in determining their fair values:

	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m
At 30 June 2016				
<b>Financial assets</b>				
<b>Available-for-sale financial instruments</b>				
Other investments	71	-	-	71
<b>Financial assets at fair value through profit or loss</b>				
Interest rate swaps	79	-	79	-
Cross-currency swaps	744	-	744	-
Forward foreign exchange contracts	411	-	411	-
<b>Total</b>	<b>1,305</b>	<b>-</b>	<b>1,234</b>	<b>71</b>
<b>Financial liabilities</b>				
<b>Financial liabilities at fair value through profit or loss</b>				
Interest rate swaps	(6)	-	(6)	-
Cross-currency swaps	(240)	-	(240)	-
Forward foreign exchange contracts	(55)	-	(55)	-
Embedded Derivative	(8)	-	(8)	-
<b>Total</b>	<b>(309)</b>	<b>-</b>	<b>(309)</b>	<b>-</b>
At 30 June 2015				
<b>Financial assets</b>				
<b>Available-for-sale financial instruments</b>				
Other investments	31	3	-	28
<b>Financial assets at fair value through profit or loss</b>				
Interest rate swaps	62	-	62	-
Cross-currency swaps	356	-	356	-
Forward foreign exchange contracts	165	-	165	-
<b>Total</b>	<b>614</b>	<b>3</b>	<b>583</b>	<b>28</b>
<b>Financial liabilities</b>				
<b>Financial liabilities at fair value through profit or loss</b>				
Cross-currency swaps	(40)	-	(40)	-
Forward foreign exchange contracts	(43)	-	(43)	-
<b>Total</b>	<b>(83)</b>	<b>-</b>	<b>(83)</b>	<b>-</b>

#### Level 1

Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities, including shares in listed entities.

#### Level 2

Fair values measured using inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly. Derivative financial instrument fair values are present values determined from future cash flows discounted at rates derived from market source data.

#### Level 3

Fair values measured using inputs for the asset or liability that are not based on observable market data. Certain of the Group's unlisted available-for-sale financial assets are held at fair value and are categorised as Level 3 in the fair value hierarchy.

## 24. Financial risk management

### Group Treasury activity

The Group's Treasury function is responsible for raising finance for the Group's operations, together with associated liquidity management and management of foreign exchange, interest rate and credit risks. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed annually by both the Audit Committee and the Board, which receive regular updates of Treasury activity. Derivative instruments are transacted for risk management purposes only. It is the Group's policy that all hedging is to cover known risks and no speculative trading is undertaken. Regular and frequent reporting to management is required for all transactions and exposures, and the internal control environment is subject to periodic review by the Group's internal audit team.

The Group's principal market risks are exposures to changes in interest rates and foreign exchange rates, which arise both from the Group's sources of finance and its operations. Following evaluation of those market risks, the Group selectively enters into derivative financial instruments to manage these exposures. The principal instruments currently used are interest rate swaps to hedge interest rate risks, and cross-currency swaps and forward foreign exchange contracts to hedge transactional and translational currency exposures.

### Interest rate risk

The Group has financial exposures to UK, euro and US interest rates, arising primarily from the Group's long-term bonds and other borrowings. The Group's hedging policy requires that between 50% and 85% of borrowings are held at fixed rates. This is achieved by issuing fixed rate bonds or floating rate notes and then using interest rate swaps to adjust the balance between fixed and floating rate debt. The Group's bank debt is at floating rates, and, if drawn, would mean that the mix of fixed and floating rate debt would fluctuate and would therefore be managed to ensure compliance with the Group's hedging policy. At 30 June 2016, 80% of borrowings were held at fixed rates after hedging (2015: 76%).

The Group uses derivatives to convert all of its US dollar-denominated debt and associated interest rate obligations to pounds sterling or euros (see section on foreign exchange risk for further detail). At 30 June 2016, the Group had no net US dollar denominated interest rate exposure on its borrowings.

The Group designates certain interest rate swaps as hedges of interest rate risk and certain cross-currency swaps as fair value hedges of both interest rate risk and currency risk. Movements in the fair value of the hedged exposure are taken to the income statement and are offset by movements in the fair value of the hedging instruments, which are also taken to the income statement. Any hedge ineffectiveness is recognised directly in the income statement. In the year ended 30 June 2016, this amounted to £1 million (2015: £1 million).

At 30 June 2016 and 30 June 2015, the Group's annual finance costs would increase or decrease by less than £1 million for a one-notch downgrade or upgrade in credit rating assuming the RCF remains undrawn.

### Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative financial instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date is outstanding for the whole year.

For each one hundred basis point rise or fall in interest rates, and if all other variables were held constant at 30 June 2016:

- The Group's profit for the year ended 30 June 2016 would increase or decrease by £34 million (2015: profit for the year would increase or decrease by less than £1 million).
- Other equity reserves would decrease or increase by £33 million (2015: decrease or increase by £12 million), arising from movements in cash flow hedges.

A one hundred basis point rise or fall in interest rates represents a large but realistic movement which can easily be multiplied to give sensitivities at different interest rates.

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates changes as the Group's portfolio of debt, cash and foreign currency contracts changes. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group. The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

### Foreign exchange risk

A combination of cross-currency and interest rate swap arrangements is used to convert the Group's debt and associated interest rate obligations to pounds sterling or euros, at fixed exchange rates. At 30 June 2016, the split of the Group's aggregate borrowings into their core currencies was US dollar 38%, euros 45% and pounds sterling 17% (2015: US dollar 42%, euros 39% and pounds sterling 19%). At 30 June 2016, 26% of the Group's long-term borrowings, after the impact of derivatives, are denominated in pounds sterling and 74% in euros (2015: 30% in pounds sterling and 70% in euros).

The Group is exposed to currency translation on the consolidation of its foreign operations. It uses certain borrowings and derivative instruments to hedge its net investments in these subsidiaries.

The majority of the Group's revenues and operating expenses are denominated in pounds sterling. In the current year, approximately 31% of operating expenses (£3,461 million) was denominated in euros (2015: approximately 24% (£2,206 million)) and approximately 10% of operating expenses (£1,096 million) was denominated in US dollars (2015: approximately 8% (£758 million)). In the current year, approximately 33% of revenues (£3,946 million) was denominated in euros (2015: 25% (£2,572 million)).

Following the acquisitions of Sky Deutschland and Sky Italia, the Group Treasury function hedges the foreign currency exposure of its foreign subsidiaries into its local reporting currency. In all territories the US dollar expense relates mainly to the Group's programming contracts with US suppliers, together with US dollar-denominated set-top box costs. In the UK the euro revenues primarily relate to subscribers located in Ireland. The UK's exposure to euro-denominated revenue is offset to a certain extent by euro-denominated costs, related mainly to certain transponder costs and euro financing costs on its borrowings; the net position being a euro surplus (2015: surplus).

## 24. Financial risk management (continued)

The Group hedges currency exposures on US dollar denominated highly probable cash flows by using forward foreign exchange contracts purchased up to five years ahead of the cash flow and currently does not hedge transactional euro exposures arising in the UK.

It is the Group's policy that all US dollar foreign currency exposures are substantially hedged in advance of the year in which they occur.

At 30 June 2016, the Group had purchased forward foreign exchange contracts representing:

- Approximately 95% of US dollar-denominated costs falling due within one year (2015: 92%), and on a declining basis across five-year planning horizon are hedged via:
  - Outstanding commitments to purchase, in aggregate, US\$3,520 million (2015: US\$2,611 million) at an average rate of US\$1.53 to £1.00 (2015: US\$1.58 to £1.00).
  - Outstanding commitments to purchase, in aggregate, US\$2,027 million (2015: US\$1,891 million) at an average rate of US\$1.16 to €1.00 (2015: US\$1.18 to €1.00).
- In respect of the UK legacy euro hedging programme and to hedge current balance sheet exposures:
  - Outstanding commitments to sell, in aggregate, €1,214 million (2015: €976 million) at an average rate of €1.23 to £1.00 (2015: €1.22 to £1.00).
  - Outstanding commitments to purchase, in aggregate, €795 million (2015: €525 million) at an average rate of €1.12 to £1.00 (2015: €1.37 to £1.00).
- In respect of the Group's European subsidiaries to hedge their material non-functional currency exposures:
  - Outstanding commitment to purchase, in aggregate, £66 million (2015: nil) at an average rate of £0.79 to €1.00 (2015: nil).

No forward foreign exchange contracts fall due beyond five years (2015: nil).

The Group designates the following as cash flow hedges for hedge accounting purposes:

- Forward foreign exchange contracts
- Cross-currency swaps where interest on both legs is at a fixed interest rate.

As such, the effective portion of the gain or loss on these contracts is reported as a component of the hedging reserve, outside the income statement, and is then reclassified to the income statement in the same periods that the forecast transactions affect the income statement. Ineffectiveness of less than £1 million was recognised in the income statement during the year (2015: less than £1 million).

A combination of US dollar denominated interest rate and US dollar/pound sterling cross-currency swaps is used to convert fixed dollar denominated debt to floating sterling denominated debt. The interest rate swaps are designated as fair value hedges. The associated cross-currency swaps are not designated as hedging instruments for hedge accounting purposes and, as such, movements in their value are recorded directly in the income statement.

### Foreign exchange sensitivity

The following analysis details the Group's sensitivity to movements in pounds sterling and euros against those currencies in which it has significant transactions. The sensitivity analysis includes foreign currency denominated assets and liabilities at the balance sheet date and outstanding foreign currency denominated financial instruments and adjusts their translation at the period end for a 25% change in foreign currency rates.

A 25% strengthening in pounds sterling against the US dollar would have the effect of reducing profit by £9 million (2015: reducing profit by £12 million), of which losses of £10 million relate to non-cash movements in the valuation of derivatives (2015: losses of £13 million). The same strengthening would have an adverse impact on other equity of £584 million (2015: adverse impact of £359 million).

A 25% weakening in pounds sterling against the US dollar would have the effect of increasing profit by £15 million (2015: increasing profit by £19 million) of which gains of £17 million relate to non-cash movements in the valuation of derivatives (2015: gains of £21 million). The same weakening would have a beneficial impact on other equity of £974 million (2015: beneficial impact of £598 million).

A 25% strengthening in pounds sterling against the euro would have the effect of increasing profit by £109 million (2015: increasing profit by £69 million) of which gains of £104 million relate to non-cash movements in the valuation of derivatives (2015: gains of £53 million). The same strengthening would have a beneficial impact on other equity of £69 million (2015: beneficial impact of £102 million).

A 25% weakening in pounds sterling against the euro would have the effect of decreasing profit by £180 million (2015: decreasing profit by £115 million) of which losses of £174 million relate to non-cash movements in the valuation of derivatives (2015: £88 million). The same weakening would have an adverse impact on other equity of £115 million (2015: adverse impact of £170 million).

A 25% strengthening in the euro against the US dollar would have the effect of decreasing profit by €4 million (2015: increase profit by €35 million). None of this amount relates to non-cash movements in the valuation of derivatives. The same strengthening would have an adverse impact on other equity of €341 million (2015: €312 million).

A 25% weakening in the euro against the US dollar would have the effect of increasing profit by €7 million (2015: decrease profit by €58 million). None of this amount relates to non-cash movements in the valuation of derivatives. The same weakening would have a beneficial impact on other equity of €569 million (2015: €520 million).

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates is constantly changing as the Group's portfolio of debt, cash and foreign currency contracts changes. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group. The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.



## Hedge accounting

The interest rate and foreign exchange rate risk sections above outline the Group's policies regarding use of derivative products. Further detail on valuations and the impact of hedge accounting during the year are provided in note 23.

## Credit risk

The Group is exposed to counterparty default risk arising in respect of invested cash and cash equivalents and short-term deposits, and the positive fair value of derivative financial assets held.

This risk is deemed to be low. Counterparty risk forms a central part of the Group's Treasury policy, which is monitored and reported on regularly. The Group manages credit risk by diversifying its exposures across a wide number of counterparties, such that the maximum exposure to any individual counterparty was 7% of the total asset value of instruments at the end of the year. Treasury policies ensure that all derivative transactions are only effected with strong relationship banks and, at the date of signing, each existing derivative counterparty carried a minimum credit rating of 'Baa2' or equivalent from Standard & Poor's. To mitigate remaining risks, counterparty credit and sovereign ratings are closely monitored, and no more than 10% of 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).

The amount recognised in the income statement in respect of credit risk for derivatives deemed held for trading is £2 million (2015: £1 million).

Credit risk in our residential customer base is mitigated by billing and collecting in advance for digital television subscriptions for the majority of our residential customer base. The Group's maximum exposure to credit risk on trade receivables is the carrying amounts as disclosed in note 19.

## Liquidity risk

Our principal source of liquidity is cash generated from operations, combined with access to a £1 billion RCF, which expires in November 2021. At 30 June 2016, this facility was undrawn (30 June 2015: undrawn).

To ensure continuity of funding, the Group's policy is to ensure that available funding matures over a period of years. At 30 June 2016, 70% (2015: 70%) of the Group's total available funding (including available undrawn amounts on our RCF) was due to mature in more than five years.

Full details of the Group's borrowings and undrawn facilities are shown in note 22, other than trade and other payables, shown in note 20, and provisions, shown in note 21.

The following table analyses the Group's non-derivative financial liabilities, net settled derivative financial instruments and gross settled financial instruments into relevant maturity groupings, based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and may therefore not reconcile to the amounts disclosed on the balance sheet for borrowings, derivative financial instruments, provisions and trade and other payables.

	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
<b>At 30 June 2016</b>				
<b>Non-derivative financial liabilities</b>				
Bonds – USD	162	725	1,257	2,202
Bonds – EUR	73	74	719	3,855
Bonds – GBP	66	466	579	816
Obligations under finance leases and other borrowings	31	12	26	121
Trade and other payables	3,017	154	14	18
Provisions	132	7	23	15
<b>Net settled derivatives</b>				
Financial assets	(25)	(25)	(25)	-
<b>Gross settled derivatives</b>				
Outflow	3,167	2,154	3,250	4,611
Inflow	(3,366)	(2,102)	(3,638)	(4,945)
<hr/>				
	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
<b>At 30 June 2015</b>				
<b>Non-derivative financial liabilities</b>				
Bonds – USD	626	137	1,615	1,920
Bonds – EUR	57	55	595	2,948
Bonds – GBP	66	66	552	1,309
Obligations under finance leases and other borrowings	26	26	29	128
Trade and other payables	2,676	123	15	19
Provisions	81	15	3	16
<b>Net settled derivatives</b>				
Financial assets	(31)	(24)	(40)	(9)
<b>Gross settled derivatives</b>				
Outflow	2,292	1,046	3,359	3,851
Inflow	(2,433)	(1,130)	(3,665)	(4,216)

## 24. Financial risk management (continued)

### Capital Risk Management

The Group's objectives when managing capital are to endeavour to ensure that the Group has the ability to access capital markets when necessary and to optimise liquidity and operating flexibility through the arrangement of new debt, while seeking to minimise the cost of capital. The Group monitors its liquidity requirements regularly and is satisfied that it has access to sufficient liquidity and operating flexibility to meet its capital requirements.

The Group manages its short and long-term capital structure by seeking to maintain leverage ratios consistent with a long-term investment grade credit rating (BBB- or better from Standard & Poor's and Baa3 or better from Moody's). The Group's current ratings are BBB (Standard & Poor's) and Baa2 (Moody's) both with stable outlook. The leverage ratios assessed by these rating agencies are those of Net Debt: EBITDA and Gross Debt: EBITDA. Net Debt is defined as total borrowings, including the cash flows arising under operating leases and transponder prepayments, less cash and cash equivalents, excluding derivatives. Gross Debt does not reduce total borrowings by the inclusion of cash and cash equivalents.

The Group is also required to maintain a Net Debt: EBITDA ratio below 4.00:1 and an EBITDA to Net Interest Payable ratio at above 3.50:1 under the terms of its RCF. The RCF definition of Net Debt does not require the inclusion of future operating lease or transponder cash flows.

At 30 June 2016, the Net Debt: EBITDA ratio as defined by the terms of the RCF was 2.4:1 (2015: 2.5:1), and the EBITDA to Net Interest Payable ratio was 10.4:1 (2015: 10.6:1).

## 25. Share capital

	2016 £m	2015 £m
Allotted, called-up and fully paid shares of 50p 1,719,017,230 (2015: 1,719,017,230)	860	860

	2016 Number of ordinary shares	2015 Number of ordinary shares
Allotted and fully paid during the year		
Beginning of year	1,719,017,230	1,562,885,017
Issue of own equity shares	–	156,132,213
End of year	1,719,017,230	1,719,017,230

The Company has one class of ordinary shares which carry equal voting rights and no contractual right to receive payment. On 25 July 2014, the Company announced the placing of 156,132,213 new ordinary shares representing approximately 9.99% of existing issued share capital at that date, for total gross proceeds of £1,358 million. £12 million of transaction costs were accounted for as a deduction from equity.

### Share option and contingent share award schemes

The Company operates various equity-settled share option schemes (the 'Schemes') for certain employees.

The number of newly issued shares which may be allocated under the Schemes on any day shall not, when aggregated with the number of newly issued shares which have been allocated in the previous 10 years under the Schemes and any other employee share scheme adopted by the Company, exceed such number as represents 5% of the ordinary share capital of the Company in issue immediately prior to that day. In determining this limit no account shall be taken of any newly issued shares where the right to acquire the newly issued shares was released, lapsed, cancelled or otherwise became incapable of exercise. Options and awards which will be satisfied by ESOP shares do not fall within these headroom limits.

The share awards outstanding can be summarised as follows:

	2016 Number of ordinary shares	2015 Number of ordinary shares
Sharesave Scheme options <sup>(i)</sup>	9,212,906	8,367,072
Management LTIP awards <sup>(ii)</sup>	18,939,950	27,108,781
LTIP awards <sup>(iii)</sup>	6,960,425	8,895,963
Management Co-Investment LTIP awards <sup>(iv)</sup>	2,093,612	2,021,348
Co-Investment LTIP awards <sup>(v)</sup>	1,846,610	1,768,738
	<b>39,053,503</b>	<b>48,161,902</b>

#### (i) Sharesave Scheme options

All Sharesave Scheme options outstanding at 30 June 2016 and 30 June 2015 have no performance criteria attached, other than the requirement that the employee remains in employment with the Group. Options granted under the Sharesave Scheme must be exercised within six months of the relevant award vesting date.

The Sharesave Scheme is open to all employees across the Group. Options are normally exercisable after either three or five years from the date of grant. The price at which options are offered is not less than 80% of the middle-market price on the dealing day immediately preceding the date of invitation. It is the policy of the Group to make an invitation to employees to participate in the scheme following the announcement of the end of year results.

#### (ii) Management LTIP awards

All Management LTIP awards outstanding at 30 June 2016 and 30 June 2015 vest only if performance conditions are met. Awards granted under the Management LTIP must be exercised within five years of the relevant award vesting date.

The Company grants awards to selected employees under the Management LTIP. Awards under this scheme mirror the LTIP, with the same performance conditions. Awards exercised under the Management LTIP can only be satisfied by the issue of market-purchased shares.

#### (iii) LTIP awards

All LTIP awards outstanding at 30 June 2016 and 30 June 2015 vest only if performance conditions are met. Awards granted under the LTIP must be exercised within five years of the relevant award vesting date.

The Company operates the LTIP for Executive Directors and Senior Executives. Awards under the scheme are granted in the form of a nil-priced option. The awards vest in full or in part dependent on the satisfaction of specified performance targets. For awards made in 2008 and 2009 (ie. awards that vested in 2011), 30% of the award vested dependent on TSR performance over a three-year performance period, relative to the constituents of the FTSE 100 at the time of grant, and the remaining 70% vested dependent on performance against operational targets. The TSR performance targets were not applicable to awards made between July 2010 and March 2012 but have been reintroduced for awards granted from July 2012 onwards.

#### (iv) Management Co-Investment LTIP awards

All Management Co-Investment LTIP awards outstanding at 30 June 2016 and 30 June 2015 vest only if performance conditions are met. Awards granted under the Management Co-Investment LTIP must be exercised within five years of the relevant award vesting date.

The Company grants awards to selected employees under the Management Co-Investment LTIP. Awards under this scheme mirror the Co-Investment LTIP, with the same performance conditions.

#### (v) Co-Investment LTIP awards

All Co-Investment LTIP awards outstanding at 30 June 2016 and 30 June 2015 vest only if performance conditions are met. Awards granted under the Co-Investment LTIP must be exercised within five years of the relevant award vesting date.

The Company operates the Co-Investment LTIP award for Executive Directors and Senior Executives. Employees who participate in the plan are granted a conditional award of shares based on the amount they have invested in the Company's shares. The investment will be matched up to a maximum of 1.5 shares for every share invested, subject to a three-year EPS performance condition.

For the purposes of the disclosure below, the Management LTIP, LTIP, Management Co-Investment LTIP and Co-Investment LTIP awards ('Senior Management Schemes') have been aggregated.

The 'Executive Scheme' refers to options granted under the Executive Share Option Scheme. No options have been granted under this scheme since 2004.

The movement in share awards outstanding is summarised in the following table:

	Executive Scheme		Sharesave Scheme		Senior management Schemes		Total	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 July 2014	147,020	5.03	7,976,924	5.90	25,932,852	0.00	34,056,796	1.40
Granted during the year	-	-	3,338,681	7.08	16,874,287	0.00	20,212,968	1.17
Exercised during the year	(144,888)	5.03	(1,796,333)	4.99	(1,887,798)	0.00	(3,829,019)	2.53
Forfeited during the year	-	-	(1,131,874)	6.37	(1,124,511)	0.00	(2,256,385)	3.19
Expired during the year	(2,132)	5.03	(20,326)	5.36	-	-	(22,458)	5.33
<b>Outstanding at 30 June 2015</b>	<b>-</b>	<b>-</b>	<b>8,367,072</b>	<b>6.50</b>	<b>39,794,830</b>	<b>0.00</b>	<b>48,161,902</b>	<b>1.13</b>
Granted during the year	-	-	3,773,962	8.17	12,030,266	0.00	15,804,228	1.95
Exercised during the year	-	-	(1,665,590)	5.95	(19,617,973)	0.00	(21,283,563)	0.47
Forfeited during the year	-	-	(1,255,954)	7.12	(2,366,526)	0.00	(3,622,480)	2.47
Expired during the year	-	-	(6,584)	5.08	-	-	(6,584)	5.08
<b>Outstanding at 30 June 2016</b>	<b>-</b>	<b>-</b>	<b>9,212,906</b>	<b>7.20</b>	<b>29,840,597</b>	<b>0.00</b>	<b>39,053,503</b>	<b>1.70</b>

The weighted average market price of the Group's shares at the date of exercise for share options exercised during the year was £11.35 (2015: £9.09). For those exercised under the Sharesave Scheme it was £10.77 (2015: £9.37), and for those exercised under the Senior Management Schemes it was £11.40 (2015: £8.84). In the prior year, the weighted average market price of the Group's shares at the date of exercise for share options exercised under the Executive Scheme was £8.90.

The middle-market closing price of the Company's shares at 1 July 2016 was £8.73 (26 June 2015: £10.66).

## 25. Share capital (continued)

The following table summarises information about share awards outstanding at 30 June 2016:

Range of exercise prices	Sharesave Scheme		Senior management Schemes		Total	
	Number	Weighted average remaining contractual life (Years)	Number	Weighted average remaining contractual life (Years)	Number	Weighted average remaining contractual life (Years)
£0.00 – £1.00	–	–	29,840,597	6.0	29,840,597	6.0
£5.00 – £6.00	930,618	1.0	–	–	930,618	1.0
£6.00 – £7.00	2,261,577	1.5	–	–	2,261,577	1.5
£7.00 – £8.00	2,566,395	2.4	–	–	2,566,395	2.4
£8.00 – £9.00	3,454,316	3.4	–	–	3,454,316	3.4
	<b>9,212,906</b>	<b>2.4</b>	<b>29,840,597</b>	<b>6.0</b>	<b>39,053,503</b>	<b>5.2</b>

The following table summarises information about share awards outstanding at 30 June 2015:

Range of exercise prices	Sharesave Scheme		Senior management Schemes		Total	
	Number	Weighted average remaining contractual life (Years)	Number	Weighted average remaining contractual life (Years)	Number	Weighted average remaining contractual life (Years)
£0.00 – £1.00	–	–	39,794,830	5.9	39,794,830	5.9
£4.00 – £5.00	7,827	0.1	–	–	7,827	0.1
£5.00 – £6.00	1,586,366	1.7	–	–	1,586,366	1.7
£6.00 – £7.00	3,643,835	2.1	–	–	3,643,835	2.1
£7.00 – £8.00	3,129,044	3.4	–	–	3,129,044	3.4
	<b>8,367,072</b>	<b>2.5</b>	<b>39,794,830</b>	<b>5.9</b>	<b>48,161,902</b>	<b>5.3</b>

The range of exercise prices of the awards outstanding at 30 June 2016 was between nil and £8.17 (2015: nil and £7.08). For those outstanding under the Sharesave Scheme it was between £5.08 and £8.17 (2015: £4.33 and £7.08) and for all awards outstanding under the Senior Management Schemes the exercise price was nil (2015: nil).

The following table summarises additional information about the awards exercisable at 30 June 2016 and 30 June 2015:

	2016			2015		
	Options exercisable at 30 June	Average remaining contractual life of exercisable options	Weighted average exercise price (£)	Options exercisable at 30 June	Average remaining contractual life of exercisable options	Weighted average exercise price (£)
Sharesave Scheme	103,049	0.1	5.88	41,293	0.1	4.94
Senior Management Schemes	840,248	3.7	0.00	273,118	2.7	0.00
	<b>943,297</b>	<b>3.3</b>	<b>0.64</b>	<b>314,411</b>	<b>2.3</b>	<b>0.65</b>

### Information for awards granted during the year

The weighted average fair value of equity-settled share options granted during the year, as estimated at the date of grant, was £791 (2015: £6.03). This was calculated using the Black-Scholes share option pricing model except for awards which have market-based performance conditions, where a Monte-Carlo simulation model was used, and for grants of nil-priced options, which were treated as the award of a free share. The fair value of nil-priced options granted during the year was measured on the basis of the market-price of the Company's shares on the date of grant, discounted for expected dividends which would not be received over the vesting period of the options.

The Monte-Carlo simulation model reflected the historical volatilities of the Company's share price and those of all other companies to which the Company's performance would be compared, over a period equal to the vesting period of the awards.

Expected volatility was determined by calculating the historical volatility of the Company's share price, over a period equal to the expected life of the options. Expected life was based on the contractual life of the awards and adjusted, based on management's best estimate, for the effects of exercise restrictions and behavioural considerations.

### (i) Sharesave Scheme

The weighted average fair value of equity-settled share awards granted during the year under the Sharesave Scheme, as estimated at the date of grant, was £1.71 (2015: £1.46). This was calculated using the Black-Scholes share option pricing model.

The following weighted average assumptions were used in calculating these fair values:

	2016	2015
Share price	£10.39	£8.82
Exercise price	£8.17	£7.08
Expected volatility	18%	20%
Expected life	3.9 years	4.0 years
Expected dividends	3.3%	3.5%
Risk-free interest rate	1.1%	1.5%

### (ii) Senior Management Schemes

The weighted average fair value of equity-settled share awards granted during the year under the Senior Management Schemes, as estimated at the date of grant, was £9.85 (2015: £6.93). The fair value of awards with market-based performance conditions was calculated using a Monte-Carlo simulation model. Awards granted as nil-priced options were treated as the award of a free share. For all other awards, fair value was calculated using the Black-Scholes share option pricing model.

The following weighted average assumptions were used in calculating these fair values:

	2016	2015
Share price	£11.14	£8.85
Exercise price	£0.00	£0.00
Expected volatility	18%	19%
Expected life	2.1 years	3.0 years
Expected dividends	3.3%	3.5%
Risk-free interest rate	0.8%	1.4%

## 26. Shareholders' equity

	2016 £m	2015 £m
Share capital	860	860
Share premium	2,704	2,704
ESOP reserve	(125)	(125)
Hedging reserve	257	62
Available-for-sale reserve	-	(1)
Other reserves	302	120
Retained earnings	(551)	(455)
	<b>3,447</b>	<b>3,165</b>

The following table provides information about purchases of equity shares by the Company, including purchases by the Group's ESOP, during the fiscal year.

	Total number of shares purchased <sup>1</sup>	Average price paid per share £
July	-	-
August	16,747,644	11.56
September	656,618	10.47
October	-	-
November	-	-
December	-	-
January	-	-
February	-	-
March	-	-
April	-	-
May	-	-
June	-	-
<b>Total for the year ended 30 June 2016</b>	<b>17,404,262</b>	<b>11.52</b>

<sup>1</sup> All share purchases were open market transactions and are included in the month of settlement.

## 26. Shareholders' equity (continued)

### Share premium and special reserve

On 10 December 2003, the High Court approved a reduction in the Company's share premium account of £1,120 million, as approved by the Company's shareholders at the AGM held on 14 November 2003. This amount was equal to the Company-only profit and loss account reserve deficit at 30 June 2003. As part of the application, the Company's balance sheet at 30 September 2003 was required to be presented. At that date, the deficit on the Company-only profit and loss account reserve had reduced by £14 million since 30 June 2003, to £1,106 million. As a condition of the reduction, the reduction in the share premium account of £1,120 million was permitted to be offset against the profit and loss account reserve by the amount of the deficit at 30 September 2003. The excess of £14 million was credited to a special reserve, which is included in other reserves, and, under the terms of the reduction, will remain undistributable until all the creditors of the Company and its guarantors (as at 10 December 2003) are paid.

### ESOP reserve

The cost of the Company's ordinary shares held by the Group's ESOP is treated as a deduction in arriving at total shareholders' equity. The movement in the ESOP reserve was as follows:

	Number of ordinary shares	Average price paid per share	£m
At 1 July 2014	17,308,999	£8.40	145
Share options exercised during the year	(3,829,019)	£8.39	(32)
Shares purchased by the ESOP during the year	1,325,800	£8.86	12
<b>At 30 June 2015</b>	<b>14,805,780</b>	<b>£8.44</b>	<b>125</b>
Share options exercised during the year	(21,283,563)	£9.39	(200)
Shares purchased by the ESOP during the year	17,404,262	£11.52	200
<b>At 30 June 2016</b>	<b>10,926,479</b>	<b>£11.49</b>	<b>125</b>

### Hedging reserve

Changes in the fair values of derivatives that are designated as cash flow hedges are initially recognised in the hedging reserve, and subsequently recognised in the income statement when the related hedged items are recognised in the income statement. In addition, deferred taxation relating to these derivatives is also initially recognised in the hedging reserve prior to transfer to the income statement.

### Available-for-sale reserve

Available-for-sale investments are carried at fair value where this can be reliably measured, with movements in the fair value recognised directly in the available-for-sale reserve. At 30 June 2016, the Group's available-for-sale reserve was nil (2015: deficit of £1 million).

### Other reserves

The Group's other reserves include a capital redemption reserve, a merger reserve, a foreign currency translation reserve and a special reserve. The capital redemption reserve was £190 million as at 30 June 2016 (2015: £190 million). The merger reserve was £125 million as at 30 June 2016 (2015: £125 million). The special reserve was £14 million as at 30 June 2016 (2015: £14 million). The foreign currency translation reserve was £(24) million as at 30 June 2016 (2015: £(209) million). Other reserves also includes the actuarial movement on employee benefit obligations of £(3) million for the current year (2015: nil).

### Reconciliation of movements in the foreign currency translation reserve

	2016 £m	2015 £m
At 1 July	(209)	29
Net investment hedges	(897)	446
Exchange differences on translation of foreign operations	1,082	(646)
Transfer to income statement on disposal of associate	-	(38)
<b>At 30 June</b>	<b>(24)</b>	<b>(209)</b>

### Merger reserve

The merger reserve was created in accordance with the merger relief provisions under section 131 of the Companies Act 1985 (as amended) and section 612 of the Companies Act 2006 relating to the accounting for business combinations involving the issue of shares at a premium. Merger relief provided relief from the requirement to create a share premium account in a parent company's balance sheet. In preparing consolidated financial statements, the amount by which the fair value of the shares issued exceeded their nominal value was recorded within a merger reserve on consolidation, rather than in a share premium account. This merger reserve was retained upon transition to IFRS, as allowed under UK law.

The merger reserve, which is included in other reserves, was created as a result of the purchase by the Group of interests in two entities. SIG was purchased on 12 July 2000, where consideration was paid by the issue of equity shares in the Company. BiB was purchased between 28 June 2001 and 11 November 2002, where consideration was paid by the issue of equity shares in the Company. Following the Group's disposal of a controlling stake in Sky Bet, the merger reserve in relation to the purchase of SIG has been transferred to retained earnings. At 30 June 2016, the Group's merger reserve was £125 million (2015: £125 million).

### Transactions with non-controlling interests

During the year, the Group acquired the remaining 4% minority shareholdings in Sky Deutschland GmbH. Consideration of £170 million was paid in cash. An amount of £60 million (being the proportional share of the carrying amount of net assets in Sky Deutschland) has been transferred from non-controlling interests.

## 27. Notes to the consolidated cash flow statement

### Reconciliation of profit before tax to cash generated from operations

	2016 £m	2015 £m
<b>Continuing operations</b>		
<b>Profit before tax</b>	<b>752</b>	<b>1,516</b>
Depreciation, impairment and losses (profits) on disposal of property, plant and equipment	356	297
Amortisation, impairment and losses (profits) on disposal of intangible assets	637	469
Share-based payment expense	100	91
Net finance costs	227	275
Profit on disposal of available-for-sale investments	-	(492)
Profit on disposal of associate	-	(299)
Share of results of joint ventures and associates	(2)	(28)
	<b>2,070</b>	<b>1,829</b>
(Increase) decrease in trade and other receivables	(204)	1
(Increase) decrease in inventories	(2)	568
Increase (decrease) in trade and other payables	137	(367)
Increase in provisions	83	65
Increase (decrease) in derivative financial instruments	2	(16)
<b>Cash generated from operations</b>	<b>2,086</b>	<b>2,080</b>

## 28. Contracted commitments, contingencies and guarantees

### a) Future minimum expenditure contracted for but not recognised in the financial statements

	Less than 1 year £m	Between 1 and 5 years £m	After 5 years £m	Total at 30 June 2016 £m	Total at 30 June 2015 £m
Television programme rights	4,071	10,247	889	15,207	11,281
Set-top boxes and related equipment	470	-	-	470	305
Third-party payments <sup>1</sup>	279	373	33	685	622
Transponder capacity <sup>2</sup>	211	691	191	1,093	1,163
Property, plant and equipment	50	1	-	51	122
Intangible assets <sup>3</sup>	58	67	-	125	151
Smartcards <sup>3</sup>	56	216	-	272	272
Other	584	698	148	1,430	1,199
	<b>5,779</b>	<b>12,293</b>	<b>1,261</b>	<b>19,333</b>	<b>15,115</b>

Foreign currency commitments are translated to pounds sterling at the rate prevailing on the balance sheet date.

- The third-party payment commitments are in respect of distribution agreements for the television channels owned and broadcast by third parties, retailed by the Group to retail and commercial subscribers ('Sky Distributed Channels').
- Transponder capacity commitments are in respect of capacity that the Group uses for digital transmissions to both retail subscribers and cable operators.
- Commitments in relation to the provision of smartcards. Smartcards under development are included within intangible assets. The amounts included above are the expected ongoing smartcard costs based on forecast customer levels.

### b) Contingencies and guarantees

Certain subsidiaries of the Company have agreed to provide additional funding to several of their investments in limited and unlimited companies and partnerships, in accordance with funding agreements. Payment of this additional funding would be required if requested by the investees in accordance with the funding agreements. The maximum potential amount of future payments which may be required to be made by the subsidiaries of the Company to their investments, in both limited and unlimited companies and partnerships under the undertakings and additional funding agreements, is £44 million (2015: £8 million).

The Group has guarantees in place relating to the Group's borrowings, see note 22. For an overview of the ongoing investigations and reviews of regulatory and competition matters involving the Group refer to the Regulatory matters section in the Strategic report.

In respect of certain commitments disclosed above, the Company has provided back-to-back guarantees in favour of 21st Century Fox, Inc. in relation to UEFA Champions League and other programming obligations of Sky Italia Srl.

## 29. Operating lease commitments

The minimum lease rentals to be paid under non-cancellable operating leases at 30 June are as follows:

	2016 £m	2015 £m
Within one year	66	65
Between one and five years	156	155
After five years	203	190
	<b>425</b>	<b>410</b>

The majority of operating leases relate to property. The rents payable under these leases are subject to renegotiation at the various intervals specified in the leases.

The minimum sub-lease rentals to be received under non-cancellable operating sub-leases at 30 June are as follows:

	2016 £m	2015 £m
Within one year	1	2
	<b>1</b>	<b>2</b>

Sub-lease rentals primarily relate to property leases.

## 30. Transactions with related parties and major shareholders

### a) Entities with joint control or significant influence

During the year the Group conducted business transactions with companies that form part of the 21st Century Fox, Inc. group, a major shareholder in the Company.

Transactions with related parties and amounts outstanding in relation to those transactions and with related parties at 30 June are as follows:

	2016 £m	2015 £m
Supply of goods or services by the Group	45	45
Purchases of goods or services by the Group	(398)	(275)
Amounts owed to the Group	20	26
Amounts owed by the Group	(182)	(180)

At 30 June 2016 the Group had expenditure commitments of £407 million in relation to transactions with related parties (2015: £590 million) which principally related to minimum television programming rights commitments.

### Goods and services supplied

During the year, the Group supplied programming, airtime, transmission and marketing services to 21st Century Fox, Inc. companies.

### Purchases of goods and services and certain other relationships

During the year, the Group purchased programming and technical and marketing services from 21st Century Fox, Inc. companies.

On 25 July 2014, the Company announced the placing of 156,132,213 new ordinary shares representing approximately 9.99% of existing issued share capital (see note 25). 21st Century Fox, Inc. subscribed for 61,106,496 of these shares so as to maintain its existing percentage shareholding in the Company following the placing.

On 12 November 2014, the Group acquired 100% of Sky Italia Srl and 57.4% of Sky Deutschland AG from 21st Century Fox, Inc. In addition, the Group repaid the loan that Sky Deutschland AG had outstanding with 21st Century Fox, Inc. of £105 million. In connection with this, Sky disposed of its 21% stake in the National Geographic channel to 21st Century Fox, Inc. on the same date. For further details, see note 6.

On 12 June 2015 Sky increased its shareholding in Tour Racing Limited ('Team Sky') as a consequence of the transfer to Sky of a 25% shareholding from 21st Century Fox, Inc.. The shares were purchased for £25, being their par value.

There is an agreement between 21st Century Fox, Inc. and the Group, pursuant to which it was agreed that, for so long as 21st Century Fox, Inc. directly or indirectly holds an interest of 30% or more in the Group, 21st Century Fox, Inc. will not engage in the business of satellite broadcasting in the UK or Ireland.

The sale and purchase agreements for the acquisitions of Sky Italia Srl and Sky Deutschland AG contained certain commitments from 21st Century Fox, Inc. not to retail certain services to consumers in certain territories until 1 January 2017. The sale and purchase agreement for the National Geographic channel contained undertakings from the Company not to compete with the business of the National Geographic Channel International until 1 January 2017.



## b) Joint ventures and associates

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below.

Transactions between the Company and its subsidiaries, joint ventures and associates are disclosed in the Company's separate financial statements.

	2016 £m	2015 £m
Supply of services by the Group	62	26
Purchases of goods or services by the Group	(52)	(55)
Amounts owed by joint ventures and associates to the Group	90	89
Amounts owed to joint ventures and associates by the Group	(14)	(16)

Services supplied are primarily the provision of transponder capacity, marketing, airtime sales and support services. Purchases represent fees payable for channel carriage.

Amounts owed by joint ventures and associates include £77 million (2015: £70 million) relating to loan funding. This loan bears interest at a rate of 8.20% (2015: 8.20%). The maximum amount of loan funding outstanding in total from joint ventures and associates during the year was £77 million (2015: £70 million).

The Group took out a number of forward exchange contracts with counterparty banks during the year on behalf of the joint venture AETN UK. On the same dates as these forward contracts were entered into, the Group entered into equal and opposite contracts with AETN UK in respect of these forward contracts.

Consequently, the Group was not exposed to any of the net gains or losses on these forward contracts. The face value of forward exchange contracts with AETN UK that had not matured as at 30 June 2016 was £34 million (2015: £12 million).

During the year, US\$27 million (2015: nil) was received from the joint venture upon maturity of forward exchange contracts, and US\$19 million (2015: US\$2 million) was paid to the joint venture upon maturity of forward exchange contracts.

During the year, £12 million (2015: £1 million) was received from the joint venture upon maturity of forward exchange contracts, and £26 million (2015: £3 million) was paid to the joint venture upon maturity of forward exchange contracts.

During the year, €11 million (2015: €3 million) was received from the joint venture upon maturity of forward exchange contracts and nil (2015: nil) was paid to the joint venture upon maturity of forward exchange contracts.

At 30 June 2016 the Group had minimum expenditure commitments of £3 million (2015: £1 million) with its joint ventures and associates.

## c) Other transactions with related parties

The Group has engaged in a number of transactions with companies of which some of the Company's Directors are also directors. These do not meet the definition of related-party transactions.

## d) Key management

The Group has a related-party relationship with the Directors of the Company. At 30 June 2016, there were 11 (2015: 14) members of key management all of whom were Directors of the Company. Key management compensation is disclosed in note 8b.

## 31. Group investments

The Group and its subsidiaries are involved in the operation of pay television broadcasting and home communications services, including the provision of broadband and telephone operations. Certain subsidiary companies provide ancillary functions which support these operations. Joint ventures and associates are involved in the transmission of specialist channels and online betting activities.

Unless otherwise indicated, all shareholdings owned directly or indirectly by the Company represent 100% of the issued share capital of the subsidiary and the share capital is comprised of ordinary shares. All entities primarily operate in their country of incorporation.

### Subsidiaries:

#### Direct holdings of the Company

##### Incorporated in the UK

Grant Way, Isleworth, Middlesex TW7 5QD

British Sky Broadcasting Group Limited  
Picnic Limited  
Sky Finance Europe Limited  
Sky Group Finance plc  
Sky Guarantee Investments Limited<sup>1</sup>  
Sky Operational Finance Limited  
Sky Television Limited  
Sky UK Limited

##### Incorporated in the Channel Islands

44 Esplanade, St Helier, Jersey JE4 9WG

Rainbow Finance (Jersey) Limited<sup>3</sup>

### Subsidiaries:

#### Indirect holdings of the Company

##### Incorporated in the UK

Grant Way, Isleworth, Middlesex TW7 5QD

365 Media Group Limited  
Amstrad Limited  
Apollo Pass Limited  
Blast! Films Limited<sup>15</sup>  
British Sky Broadcasting Limited  
Ciel Bleu 6 Limited  
Cymru International Limited  
Dolphin TV Limited  
International Channel Pack Distribution Limited  
Kidsprog Limited  
Love Productions Limited<sup>11</sup>  
MEMSTV Limited  
Multicultural & Ethnic Media Sales Limited  
Newsedge Limited  
NOW TV plc  
Parthenon 1 Limited  
Parthenon 2 Limited  
Parthenon Entertainment Limited  
Parthenon Media Group Limited  
Rivals Digital Media Limited  
S.A.T.V. Publishing Limited  
Sky Channel Limited  
Sky Comedy Limited  
Sky CP Limited  
Sky Europe Limited  
Sky Global Media plc  
Sky Group Limited  
Sky Healthcare Scheme 2 Limited  
Sky History Limited  
Sky Holdings Limited  
Sky Home Communications Limited

Sky In-Home Service Limited  
Sky International Limited  
Sky International Operations Limited  
Sky IP International Limited  
Sky IQ Limited  
Sky LLU Assets Limited  
Sky Mobile Services Limited  
Sky New Media Ventures Limited  
Sky News Limited  
Sky Publications Limited  
Sky Retail Stores Limited  
Sky SNA Limited  
Sky SNI Limited  
Sky SNI Operations Limited  
Sky Subscribers Services Limited  
Sky Telecommunications Limited  
Sky Telecommunications Services Limited  
Sky Ventures Limited  
The Cloud Networks Limited  
Tour Racing Limited<sup>9,12</sup>  
Una Tickets Limited<sup>9</sup>  
Virtuous Systems Limited

10th Floor, The Met Building, 22 Percy Street, London W1T 2BU

Znak Jones Productions Limited

##### Incorporated in Germany

Potsdamer Platz 1, 10785, Berlin

BSkyB GmbH

Oderstraße 59, 14513 Teltow, Potsdam

Sky Deutschland Customer Center GmbH

Eckdrift 109, 19061 Schwerin-Krebsförden

Sky Deutschland Service Center GmbH

Medienallee 26, 85774 Unterföhring, Munich

Premiere WIN Fernsehen GmbH

SCAS Satellite CA Services GmbH

Sky Deutschland GmbH

Sky Deutschland Fernsehen GmbH & Co. KG<sup>2</sup>

Sky Deutschland Verwaltungs GmbH

Sky German Holdings GmbH

Sky Hotel Entertainment GmbH

Sky Media GmbH

##### Incorporated in Italy

Via Monte Penice, 7 – 20138 Milan

Nuova Società Televisiva Italiana S.r.l.<sup>2</sup>

Sky Italia S.r.l.<sup>2</sup>

Sky Italian Holdings S.p.A

Sky Italia Network Services S.r.l.<sup>2</sup>

Telepiù S.r.l.<sup>2</sup>

### Incorporated in the USA

Corporation Trust Center 1209 Orange Street, Wilmington, New Castle, Delaware, 19801

BSkyB US Holdings, Inc.<sup>9</sup>

1675 S. State Street, Suite B, Dover, DE 19901

Callisto Media West, LLC<sup>2,9</sup>

Jupiter Entertainment, LLC<sup>2,9</sup>

Jupiter Entertainment Holdings, LLC<sup>2,9,13</sup>

Jupiter Entertainment North, LLC<sup>2,9</sup>

4800 Old Kingston Pike, Suite 2200, Knoxville, TN 37919

PhotoOps, LLC<sup>2,9</sup>

4318 Conifer Lane, Juneau, AK 99801

Wild West Alaska, LLC<sup>2,9</sup>

1925 Century Park East, 22nd Floor, Los Angeles CA 90067-90071

Baking Show, LLC<sup>2,6</sup>

Love American Journeys, LLC<sup>2,6</sup>

Love Baking, LLC<sup>2,6</sup>

Love Productions USA, Inc<sup>2,6</sup>

Love Sewing, LLC<sup>2,6</sup>

USA Love Development, LLC<sup>2,6</sup>

1801 Century Park East, #2160, Los Angeles CA 90067

ZJTV LLC<sup>2,14</sup>

### Incorporated in other overseas countries

Austria – Schönbrunner Straße 297/2 / A-1120 Wien

Sky Österreich Fernsehen GmbH

Sky Österreich Verwaltung GmbH

Belgium – Boulevard Charlemagne 1, 1041 Brussels

Sky Channel SA

Hong Kong – Level 54, Hopewell Centre, 183 Queen's Road East

Sky Manufacturing Services Limited

Ireland – Fifth Floor, One Burlington Plaza, Burlington Road, Dublin 4

Sky Ireland Limited

Switzerland – Stockerhof, Dreikönigstrasse 31A, CH8002 Zürich

Sky International AG

### Joint ventures and associates:

#### Incorporated in the UK

Grant Way, Isleworth, Middlesex TW7 5QD

AETN UK 50.00%

Millbank Tower, 21-24 Millbank, London SW1P 4QP

Attheraces Holdings Limited<sup>4,9</sup> 48.35%

15 Bedford Street, London WC2E 9HE

Bolt Pro Tem Limited<sup>6</sup> 33.33%

Brook Green House, 4 Rowan Road, London W6 7DU

Colossus Productions Limited<sup>6</sup> 20.00%

2nd Floor, 27 Mortimer Street, London W1T 3JF

DTV Services Limited<sup>7</sup> 20.00%

6th Floor, One London Wall, London EC2Y 5EB

Internet Matters Limited<sup>1,6</sup> 25.00%

43 Eagle Street, London WC1R 4AT

Lovesport Productions Limited<sup>8</sup> 49.99%

17-19 Hawley Crescent, Camden, London NW1 8TT

Nickelodeon UK Limited<sup>8</sup> 40.00%

Paramount UK Partnership<sup>2,8,10</sup> 25.00%

St Albans House, 57-59 Haymarket, London SW1Y 4QX

Odeon and Sky Filmworks Limited<sup>9</sup> 50.00%

10-14 Accommodation Road, London NW11 8ED

Sugar Films Limited 24.90%

15 Canada Square, Canary Wharf, London E14 5GL

Venture 2009 Limited 50.00%

### Incorporated in other overseas countries

### Shareholding

Channel Islands – 1 Waverley Place, Union Street, St Helier, Jersey JE1 1SG

Cyan Blue Topco Limited<sup>5</sup> 20.06%

Australia – 5 Thomas Holt Drive, Macquarie Park, NSW, 2113

Australian News Channel Pty Limited 33.33%

USA – 874 Walker Rd, Suite C, Dover, DE 19904

Talos Films, LLC<sup>2,8</sup> Membership interest (25.00%)

UAE – PO Box 77845, Abu Dhabi

Sky News Arabia FZ-LLC 50.00%

- 1 This entity is limited by guarantee and so does not have issued share capital.
- 2 These entities do not have issued share capital and Sky's investment instead comprises of a membership, partnership or quota interest, according to the legal form of the company.
- 3 This entity has also issued preference shares.
- 4 This entity has also issued recoupment shares.
- 5 This entity has also issued contingent value shares.
- 6 These entities have an accounting reference date of 31 March.
- 7 This entity has an accounting reference date of 31 May.
- 8 These entities have an accounting reference date of 30 September.
- 9 These entities have an accounting reference date of 31 December.
- 10 The Paramount UK Partnership is a joint venture of the Group and is included within the consolidated accounts in accordance with Note 1(c)(ii). Consequently, the Paramount UK Partnership has taken advantage of the exemption within the Partnerships (Accounts) Regulations 2008 (regulation 7) from filing annual financial statements.
- 11 Sky owns 70.40% of the issued share capital of this entity.
- 12 Sky owns 85.00% of the issued share capital of this entity.
- 13 Sky owns 60.00% of the issued share capital of this entity.
- 14 Sky owns 51.00% of the issued share capital of this entity.
- 15 Sky owns 51.50% of the issued share capital of this entity.

The following companies are exempt from the requirements relating to the audit of individual accounts for the year/period ended 30 June 2016 by virtue of section 479A of the Companies Act 2006: Kidsprog Limited (02767224), Parthenon Media Group Limited (06944197), S.A.T.V. Publishing Limited (01085975), Sky Finance Europe Limited (09446689), Sky IP International Limited (07245844), Sky Operational Finance Limited (02906994) and Sky Television Limited (01518707).

## 32. Sky plc company only financial statements

### Company Income Statement

for the year ended 30 June 2016

	Notes	2016 £m	2015 £m
<b>Revenue</b>		<b>219</b>	<b>229</b>
Operating expense		(51)	(97)
<b>Operating profit</b>		<b>168</b>	<b>132</b>
Dividend income from subsidiaries	O	671	510
Investment income	B	174	131
Finance costs	B	(183)	(201)
<b>Profit before tax</b>	C	<b>830</b>	<b>572</b>
Taxation	D	(31)	(24)
<b>Profit for the year attributable to equity shareholders</b>		<b>799</b>	<b>548</b>

The accompanying notes are an integral part of this income statement.

### Company Statement of Comprehensive Income

for the year ended 30 June 2016

	2016 £m	2015 £m
<b>Profit for the year attributable to equity shareholders</b>	<b>799</b>	<b>548</b>
<b>Other comprehensive income</b>		
<b>Amounts recognised directly in equity that may subsequently be recycled to the income statement</b>		
Gain on cash flow hedges	357	76
Tax on cash flow hedges	(71)	(16)
	286	60
<b>Amounts reclassified and reported in the income statement</b>		
Gain on cash flow hedges	(358)	(113)
Tax on cash flow hedges	71	23
	(287)	(90)
<b>Other comprehensive loss for the year (net of tax)</b>	<b>(1)</b>	<b>(30)</b>
<b>Total comprehensive income for the year attributable to equity shareholders</b>	<b>798</b>	<b>518</b>

All results relate to continuing operations.

## Company Balance Sheet

as at 30 June 2016

	Notes	2016 £m	2015 £m
<b>Non-current assets</b>			
Investments in subsidiaries	E	9,523	9,517
Other receivables	G	5	6
Derivative financial assets	J	799	358
Deferred tax assets	F	-	1
		<b>10,327</b>	<b>9,882</b>
<b>Current assets</b>			
Other receivables	G	9,020	7,859
Cash and cash equivalents		-	-
Derivative financial assets	J	-	55
		<b>9,020</b>	<b>7,914</b>
<b>Total assets</b>		<b>19,347</b>	<b>17,796</b>
<b>Current liabilities</b>			
Other payables	I	3,431	3,479
Derivative financial liabilities	J	-	55
		<b>3,431</b>	<b>3,534</b>
<b>Non-current liabilities</b>			
Borrowings	H	8,182	6,723
Derivative financial liabilities	J	133	74
		<b>8,315</b>	<b>6,797</b>
<b>Total liabilities</b>		<b>11,746</b>	<b>10,331</b>
Share capital	L	860	860
Share premium	L	2,704	2,704
Reserves		4,037	3,901
<b>Total equity attributable to equity shareholders</b>		<b>7,601</b>	<b>7,465</b>
<b>Total liabilities and shareholders' equity</b>		<b>19,347</b>	<b>17,796</b>

The accompanying notes are an integral part of this balance sheet.

These financial statements of Sky plc, registered number 02247735, have been approved by the Board of Directors on 27 July 2016 and were signed on its behalf by:

**Jeremy Darroch**  
Group Chief Executive Officer

**Andrew Griffith**  
Group Chief Operating Officer and Chief Financial Officer

## 32. Sky plc company only financial statements (continued)

### Company Cash Flow Statement

for the year ended 30 June 2016

	Notes	2016 £m	2015 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	M	-	-
<b>Net cash from operating activities</b>		-	-
<b>Cash flows from financing activities</b>			
Proceeds from the exercise of share options		10	10
Loan to subsidiaries		(10)	(11)
<b>Net cash used in financing activities</b>		-	(1)
<b>Net decrease in cash and cash equivalents</b>		-	(1)
Cash and cash equivalents at the beginning of the year		-	1
<b>Cash and cash equivalents at the end of the year</b>		-	-

The accompanying notes are an integral part of this cash flow statement.

### Company Statement of Changes in Equity

for the year ended 30 June 2016

	Share capital £m	Share premium £m	Special reserve £m	Capital redemption reserve £m	Capital reserve £m	ESOP reserve £m	Hedging reserve £m	Retained earnings £m	Total Shareholders' equity £m
<b>At 1 July 2014</b>	<b>781</b>	<b>1,437</b>	<b>14</b>	<b>190</b>	<b>844</b>	<b>(145)</b>	<b>1</b>	<b>2,880</b>	<b>6,002</b>
Profit for the year	-	-	-	-	-	-	-	548	548
Recognition and transfer of cash flow hedges	-	-	-	-	-	-	(37)	-	(37)
Tax on items taken directly to other comprehensive income	-	-	-	-	-	-	7	-	7
<b>Total comprehensive (loss) income for the year</b>	-	-	-	-	-	-	<b>(30)</b>	<b>548</b>	<b>518</b>
Share-based payment	-	-	-	-	-	20	-	69	89
Reversal of financial liability for close period purchases	-	-	-	-	-	-	-	59	59
Issue of own equity shares	79	1,267	-	-	-	-	-	-	1,346
Dividends	-	-	-	-	-	-	-	(549)	(549)
<b>At 30 June 2015</b>	<b>860</b>	<b>2,704</b>	<b>14</b>	<b>190</b>	<b>844</b>	<b>(125)</b>	<b>(29)</b>	<b>3,007</b>	<b>7,465</b>
Profit for the year	-	-	-	-	-	-	-	799	799
Recognition and transfer of cash flow hedges	-	-	-	-	-	-	(1)	-	(1)
<b>Total comprehensive (loss) income for the year</b>	-	-	-	-	-	-	<b>(1)</b>	<b>799</b>	<b>798</b>
Share-based payment	-	-	-	-	-	-	-	(98)	(98)
Dividends	-	-	-	-	-	-	-	(564)	(564)
<b>At 30 June 2016</b>	<b>860</b>	<b>2,704</b>	<b>14</b>	<b>190</b>	<b>844</b>	<b>(125)</b>	<b>(30)</b>	<b>3,144</b>	<b>7,601</b>

For a description of the nature and purpose of each equity reserve, see note L.

The accompanying notes are an integral part of this statement of changes in equity.

#### A. Accounting policies

Sky plc (the 'Company') is a public limited company incorporated in the United Kingdom and registered in England and Wales.

##### i) Basis of preparation

The Company financial statements have been prepared in accordance with IFRS, consistent with the accounting policies set out in note 1 of the Group's consolidated financial statements.

##### ii) Revenue

Revenue, which excludes value added tax, represents the gross inflow of economic benefit from the Company's operating activities. Revenue is measured at the fair value of the consideration received or receivable. The Company's main source of revenue is from licensing the Company's brand name asset to subsidiaries. This revenue is recognised on an accruals basis under the terms of relevant licensing agreements.

##### iii) Investment in subsidiaries

An investment in a subsidiary is recognised at cost less any provision for impairment. As permitted by section 133 of the Companies Act 2006, where the relief afforded under section 131 of the Companies Act 2006 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings.

## B. Investment income and finance costs

	2016 £m	2015 £m
<b>Investment income</b>		
Investment income from subsidiaries	172	130
Interest on other loans and receivables with related parties	2	1
	<b>174</b>	<b>131</b>
	2016 £m	2015 £m
<b>Finance costs</b>		
<b>- Interest payable and similar charges</b>		
Facility related costs	(3)	(33)
Guaranteed Notes (see note H)	(191)	(168)
	<b>(194)</b>	<b>(201)</b>
<b>- Other finance income (expense)</b>		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	(723)	462
Foreign exchange gain (loss) arising on loan with subsidiaries	735	(462)
Gain (loss) arising on derivatives in a designated fair value hedge accounting relationship	14	(19)
(Loss) gain arising on adjustment for hedged item in a designated fair value hedge accounting relationship	(15)	19
	<b>11</b>	<b>-</b>
	<b>(183)</b>	<b>(201)</b>

In the prior year finance costs included £50 million incurred in connection with £6.6 billion of firm underwritten debt facilities and other associated transaction costs relating to the purchase of Sky Deutschland and Sky Italia. These facilities, including the previous RCF, were repaid or cancelled in the prior year with the exception of the £1 billion revolving credit facility (RCF), which remains undrawn.

## C. Profit before taxation

### Employee benefits

The Company had no employees (2015: none) during the year.

### Key management compensation

Amounts paid to the Directors of the Company are disclosed in the Report on Directors' remuneration on pages 49 to 63.

## D. Taxation

### i) Taxation recognised in the income statement

	2016 £m	2015 £m
<b>Current tax expense</b>		
Current year	30	22
<b>Total current tax charge</b>	<b>30</b>	<b>22</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	1	2
<b>Total deferred tax charge</b>	<b>1</b>	<b>2</b>
<b>Taxation</b>	<b>31</b>	<b>24</b>

### ii) Deferred tax recognised directly in equity

	2016 £m	2015 £m
<b>Deferred tax credit on hedging activities</b>	<b>-</b>	<b>(7)</b>

### iii) Reconciliation of effective tax rate

The tax expense for the year is lower (2015: lower) than the expense that would have been charged using the blended rate of corporation tax in the UK (20.0%) applied to profit before tax. The applicable enacted or substantively enacted effective rate of UK corporation tax for the year was 20.0% (2015: 20.75%). The differences are explained below:

	2016 £m	2015 £m
Profit before tax	830	572
Profit before tax multiplied by blended rate of corporation tax in the UK of 20.0% (2015: 20.75%)	166	119
Effects of:		
Non-taxable income	(135)	(106)
Non-deductible expenditure	-	11
<b>Taxation</b>	<b>31</b>	<b>24</b>

All taxation relates to UK corporation tax.

## 32. Sky plc company only financial statements (continued)

### E. Investments in subsidiaries

	£m
<b>Cost</b>	
At 1 July 2014	9,151
Additions	1,371
<b>At 30 June 2015</b>	<b>10,522</b>
Additions	6
<b>At 30 June 2016</b>	<b>10,528</b>
<b>Provision</b>	
At 1 July 2014, 30 June 2015 and 30 June 2016	(1,005)
<b>Carrying amounts</b>	
At 1 July 2014	8,146
At 30 June 2015	9,517
<b>At 30 June 2016</b>	<b>9,523</b>

See note 31 for a list of the Company's investments.

### F. Deferred tax

#### Recognised deferred tax assets (liabilities)

	Financial instruments temporary differences £m
At 1 July 2014	(4)
Charge to income	(2)
Credit to other comprehensive income	7
<b>At 30 June 2015</b>	<b>1</b>
Charge to income	(1)
<b>At 30 June 2016</b>	<b>-</b>

At 30 June 2016 a deferred tax asset of £232 million (2015: £244 million) has not been recognised in respect of gross capital losses of £1,223 million (2015: £1,220 million) related to the Group's holding in KirchPayTV, on the basis that utilisation of these temporary differences is not probable. At 30 June 2016, the Company has also not recognised a deferred tax asset of £1 million (2015: £1 million) relating to gross capital losses and provisions of £5 million (2015: £5 million) in respect of football club investments, on the basis that it is not probable that they will be utilised.

### G. Other receivables

	2016 £m	2015 £m
Amounts receivable from subsidiaries	9,018	7,859
Prepayments and other receivables	2	-
<b>Current other receivables</b>	<b>9,020</b>	<b>7,859</b>
Non-current prepayment	5	6
<b>Total other receivables</b>	<b>9,025</b>	<b>7,865</b>

On 17 November 2015, the Company made a loan of £356 million to Sky Operational Finance Limited. This loan bears interest at 3.721% and is repayable on demand.

On 1 April 2015, the Company made a loan of €600 million to Sky Operational Finance Limited. This loan bears interest at 3 month EURIBOR plus 0.75% and is repayable on demand.

On 27 November 2014, the Company made a loan of €400 million to Sky Operational Finance Limited. This loan bears interest at 2.750% and is repayable on demand.

On 24 November 2014, the Company made loans of £200 million, £450 million, €850 million and €126 million to Sky Operational Finance Limited. These loans bear interest at a rate of 4.000%, LIBOR plus 1.230%, 1.875% and 2.940% respectively, and are repayable on demand.

On 16 September 2014, the Company made loans of €969 million and €582 million to Sky Operational Finance Limited. These loans bear interest at 2.187% and EURIBOR plus 0.656% respectively, and are repayable on demand.

On 15 September 2014, the Company made loans of €1,500 million and €1,000 million to Sky Operational Finance Limited. These loans bear interest at 1.500% and 2.500% respectively, and are repayable on demand.

On 26 November 2012, the Company issued US\$800 million Guaranteed Notes with a coupon rate of 3.125% and loaned proceeds to Sky Operational Finance Limited. Sky Operational Finance Limited pays the same annual effective interest rate to the Company.

On 24 November 2008, the Company issued US\$600 million Guaranteed Notes with a coupon rate of 9.500% and loaned the proceeds to Sky Operational Finance Limited. Sky Operational Finance Limited pays the same annual effective interest rate to the Company.



On 15 February 2008, the Company issued US\$750 million Guaranteed Notes with a coupon rate of 6.100% and loaned the proceeds to Sky UK Limited. Sky UK Limited pays the same annual effective interest rate to the Company.

All other amounts receivable from subsidiaries are non-interest bearing and are also repayable on demand.

The Directors consider that the carrying amount of other receivables approximates their fair values.

The Company's credit risk is primarily attributable to its other receivables. The majority of its other receivables balance is due from Sky Operational Finance Limited and Sky UK Limited. The risk of these entities defaulting on amounts owed is considered low due to Sky Operational Finance Limited being a conduit to pass through intercompany financing and due to Sky UK Limited's successful operation of pay television broadcasting and home communications services in the UK and Ireland.

## H. Borrowings

	2016 £m	2015 £m
<b>Non-current borrowings</b>		
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018	559	474
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	435	372
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019	576	477
€600 million of Guaranteed Floating Rate Notes repayable in April 2020	499	425
£450 million of 2.875% Guaranteed Notes repayable in November 2020	470	445
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021	1,243	1,058
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022	597	504
€850 million of 1.875% Guaranteed Notes repayable in November 2023	705	602
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024	933	787
€500 million of 2.250% Guaranteed Notes repayable in November 2025	414	-
€1,000 million of 2.500% Guaranteed Notes repayable in September 2026	828	705
£300 million of 6.000% Guaranteed Notes repayable in May 2027	296	296
£300 million of 4.000% Guaranteed Notes repayable in November 2029	297	297
€400 million of 2.750% Guaranteed Notes repayable in November 2029	330	281
	<b>8,182</b>	<b>6,723</b>

At 30 June 2016, the Company had in issue the following Guaranteed Notes:

	Hedged Value £m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed £m	Floating £m	Fixed	Floating
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018	387	290	97	6.829%	6m LIBOR +1.892%
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	389	260	129	7.091%	6m LIBOR +5.542%
£450 million of 2.875% Guaranteed Notes repayable in November 2020	450	-	450	-	3m LIBOR +1.230%
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022	503	503	-	3.226%	-
€500 million of 2.250% Guaranteed Notes repayable in November 2025	356	356	-	3.721%	-
£300 million of 6.000% Guaranteed Notes repayable in May 2027	300	300	-	6.000%	-
£300 million of 4.000% Guaranteed Notes repayable in November 2029	200	200	-	4.000%	-
	<b>2,585</b>	<b>1,909</b>	<b>676</b>		

	Hedged Value €m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed €m	Floating €m	Fixed	Floating
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019	581	-	581	-	3m EURIBOR +0.656%
€600 million of Guaranteed Floating Rate Notes repayable in April 2020	600	-	600	-	3m EURIBOR +0.750%
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021	1,500	1,500	-	1.500%	-
€850 million of 1.875% Guaranteed Notes repayable in November 2023	850	850	-	1.875%	-
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024	969	969	-	2.187%	-
€1,000 million of 2.500% Guaranteed Notes repayable in September 2026	1,000	1,000	-	2.500%	-
£300 million of 4.000% Guaranteed Notes repayable in November 2029	126	126	-	2.943%	-
€400 million of 2.750% Guaranteed Notes repayable in November 2029	400	400	-	2.750%	-
	<b>6,026</b>	<b>4,845</b>	<b>1,181</b>		

### 32. Sky plc company only financial statements (continued)

At 30 June 2015, the Company had in issue the following Guaranteed Notes:

	Hedged Value £m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed £m	Floating £m	Fixed	Floating
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018	387	290	97	6.829%	6m LIBOR +1.892%
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	389	260	129	7.091%	6m LIBOR +5.542%
£450 million of 2.875% Guaranteed Notes repayable in November 2020	450	-	450	-	3m LIBOR +1.230%
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022	503	503	-	3.226%	-
£300 million of 6.000% Guaranteed Notes repayable in May 2027	300	300	-	6.000%	-
£300 million of 4.000% Guaranteed Notes repayable in November 2029	200	200	-	4.000%	-
	<b>2,229</b>	<b>1,553</b>	<b>676</b>		

	Hedged Value £m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed £m	Floating £m	Fixed	Floating
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019	581	-	581	-	3m EURIBOR +0.656%
€600 million of Guaranteed Floating Rate Notes repayable in April 2020	600	-	600	-	3m EURIBOR +0.750%
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021	1,500	1,500	-	1.500%	-
€850 million of 1.875% Guaranteed Notes repayable in November 2023	850	850	-	1.875%	-
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024	969	969	-	2.187%	-
€1,000 million of 2.500% Guaranteed Notes repayable in September 2026	1,000	1,000	-	2.500%	-
£300 million of 4.000% Guaranteed Notes repayable in November 2029	126	126	-	2.943%	-
€400 million of 2.750% Guaranteed Notes repayable in November 2029	400	400	-	2.750%	-
	<b>6,026</b>	<b>4,845</b>	<b>1,181</b>		

#### I. Other payables

	2016 £m	2015 £m
<b>Other payables</b>		
Amounts owed to subsidiary undertakings	3,325	3,394
Accruals	106	85
	<b>3,431</b>	<b>3,479</b>

Amounts payable to subsidiaries are non-interest bearing and repayable on demand. The balance comprises £2,164 million of non-interest bearing loans (2015: £2,164 million) and £1,161 million of other payables (2015: £1,230 million). The Directors consider that the carrying amount of other payables approximates their fair values.

#### J. Derivatives and other financial instruments

##### Fair values

Set out below is a comparison of the carrying values and the estimated fair values of the Company's financial assets and financial liabilities at 30 June 2016 and 30 June 2015:

	2016 Carrying value £m	2016 Fair value £m	2015 Carrying value £m	2015 Fair value £m
<b>Financial assets and liabilities held or issued to finance the Company's operations</b>				
Quoted bond debt	(8,182)	(8,682)	(6,723)	(6,903)
Derivative financial instruments	666	666	284	284
Other payables and receivables	5,587	5,587	4,380	4,380

The fair values of financial assets and financial liabilities are determined as detailed in note 23 and all items held at fair value are classified as Level 2 in the fair value hierarchy, with the exception of our quoted bond debt which is determined with reference to quoted market prices based on Level 1 of the fair value hierarchy.

Set out below are the derivative financial instruments entered into by the Company to manage its interest rate and foreign exchange risk.

	2016				2015			
	Asset		Liability		Asset		Liability	
	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m
<b>Fair value hedges</b>								
Interest rate swaps	74	1,029	-	-	48	939	-	-
Cross-currency swaps	120	466	-	-	19	466	-	-
<b>Cash flow hedges</b>								
Cross-currency swaps	445	1,924	-	-	88	1,065	(12)	503
<b>Derivatives not in a formal hedge relationship</b>								
Interest rate swaps	5	50	(12)	310	14	336	(14)	596
Cross-currency swaps	155	629	(121)	1,483	244	2,065	(103)	1,017
<b>Total</b>	<b>799</b>	<b>4,098</b>	<b>(133)</b>	<b>1,793</b>	<b>413</b>	<b>4,871</b>	<b>(129)</b>	<b>2,116</b>

Note 23 provides further details of the Group's derivative and other financial instruments.

The maturity of the derivative financial instruments is shown below:

	2016		2015	
	Asset £m	Liability £m	Asset £m	Liability £m
In one year or less	-	-	55	(55)
Between one and two years	198	(5)	-	-
Between two and five years	233	(30)	211	(34)
In more than five years	368	(98)	147	(40)
<b>Total</b>	<b>799</b>	<b>(133)</b>	<b>413</b>	<b>(129)</b>

## K. Financial risk management

### Interest rate and foreign exchange risk management

The Company manages its exposure to interest rates and foreign exchange movements, which arise from the Company's sources of finance by selectively entering into derivative financial instruments to manage its exposure. The Company has also entered into derivative contracts on behalf of its subsidiary Sky Group Finance plc, and has back-to-back intercompany contracts.

### Foreign exchange risk

The following analysis details the Company's sensitivity to movements in pounds sterling against all currencies in which it has significant transactions. The sensitivity analysis includes only outstanding foreign currency denominated financial instruments and adjusts their translation at the period end for a 25% change in foreign currency rates.

A 25% strengthening in pounds sterling against the US dollar would have an adverse impact on profit of £10 million (2015: adverse impact of £13 million), relating to non-cash movements in the valuation of derivatives. The same strengthening would have an adverse impact on other equity of £68 million (2015: adverse impact of £39 million).

A 25% weakening in pounds sterling against the US dollar would have a beneficial impact on profit of £17 million (2015: beneficial impact of £21 million), relating to non-cash movements in the valuation of derivatives. The same weakening would have a beneficial impact on other equity of £113 million (2015: beneficial impact of £65 million).

A 25% strengthening in pounds sterling against the euro would have a beneficial impact on profit by £38 million (2015: beneficial impact of £17 million), relating to non-cash movements in the valuations of derivatives. The same strengthening would have an adverse impact on other equity of £16 million (2015: nil).

A 25% weakening in pounds sterling against the euro would have an adverse impact on profit of £63 million (2015: adverse impact of £28 million), relating to non-cash movements in the valuation of derivatives. The same weakening would have a beneficial impact on other equity of £27 million (2015: nil).

## 32. Sky plc company only financial statements (continued)

### K. Financial risk management (continued)

#### Interest rate risk

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative financial instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

For each one hundred basis point rise or fall in interest rates at 30 June 2016, and if all other variables were held constant, the Company's profit for the year ended 30 June 2016 would decrease or increase by £10 million (2015: decrease or increase by £18 million) and other equity reserves would decrease or increase by £26 million (2015: decrease or increase by £6 million).

A one hundred basis point rise or fall in interest rates represents a large but realistic movement which can easily be multiplied to give sensitivities at different interest rates.

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company. In addition, the Company's actual exposure to market rates changes as the Company's portfolio of debt changes.

The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

#### Liquidity risk

See note 24 for the Company's policy on liquidity management.

The following table analyses the Company's non-derivative financial liabilities, net settled interest rate swaps and gross settled currency swaps and collars into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows and may therefore not reconcile to the amounts disclosed on the balance sheet for borrowings, derivative financial instruments and other payables.

	Less than 12 months £m	Between one and two years £m	Between two and five years £m	More than five years £m
<b>At 30 June 2016</b>				
<b>Non-derivative financial liabilities</b>				
Bonds – USD	145	708	1,206	1,691
Bonds – GBP	43	43	579	816
Bonds – EUR	73	74	719	3,855
Other payables	3,431	-	-	-
<b>Net settled derivatives</b>				
Financial assets	(22)	(22)	(25)	-
<b>Gross settled derivatives</b>				
Outflow	154	931	1,662	3,542
Inflow	(194)	(757)	(1,861)	(3,889)
<b>At 30 June 2015</b>				
<b>Non-derivative financial liabilities</b>				
Bonds – USD	122	122	1,572	1,474
Bonds – GBP	43	43	129	1,309
Bonds – EUR	57	55	595	2,948
Other payables	3,479	-	-	-
<b>Net settled derivatives</b>				
Financial assets	(22)	(21)	(37)	(9)
<b>Gross settled derivatives</b>				
Outflow	1,058	141	1,991	3,147
Inflow	(1,083)	(166)	(2,192)	(3,147)

At 30 June 2016, the Company had an undrawn £1,000 million RCF with a maturity date of 30 November 2021. See note 22 for further information.

## L. Notes to the Company statement of changes in equity

For details of share capital, share premium, the special reserve, the capital redemption reserve and the hedging reserve, see notes 25 and 26.

For details of dividends, see note 11.

### Capital reserve

This reserve arose from the surplus on the transfer of trade and assets to a subsidiary undertaking.

## M. Reconciliation of profit before tax to cash generated from operations

	2016 £m	2015 £m
Profit before tax	830	572
Dividend income	(671)	(510)
Net finance costs	9	70
Increase in other receivables	(168)	(132)
Cash generated from operations	-	-

## N. Contingent liabilities and guarantees

The Company and certain of its subsidiaries have undertaken, in the normal course of business, to provide support to several of the Group's investments in both limited and unlimited companies and partnerships, to meet their liabilities as they fall due. Several of these undertakings contain maximum financial limits. These undertakings have been given for at least one year from the date of the signing of the UK statutory accounts of the related entity. A payment under these undertakings would be required in the event of an investment being unable to pay its liabilities.

The Company has provided parent company guarantees in respect of the various contracts entered into with the Premier League by Sky UK Limited and Sky Italia Srl covering the 2016/17 to 2018/19 football seasons. In each case the guarantee covers all payment obligations now or in the future due, owing or incurred by Sky UK Limited under the contracts and all liabilities now or in the future arising or incurred under the indemnity given to the Premier League by Sky UK Limited and Sky Italia Srl under the contracts.

The Company has provided a parent company guarantee to UEFA in respect of a media rights agreement entered into by Sky Italia Srl in relation to the UEFA Euro 2016 football championship. The guarantee covers all payment obligations by Sky Italia Srl under the agreement.

The Company has provided a parent company guarantee to Warburg-HIH Invest Real Estate GmbH in respect of a rental agreement entered into by Sky Deutschland GmbH. The guarantee covers all payment obligations by Sky Deutschland GmbH under the agreement.

The Company has provided a parent company guarantee in respect of the contract entered into with Sky UK Limited and Stanhope plc in relation to the construction of a new corporate headquarters at the Osterley campus. The guarantee covers all performance obligations and payment obligations imposed on Sky UK Limited under that contract.

The Company has provided a back-to-back guarantee in favour of 21st Century Fox, Inc. of up to half of the annual payment obligations of Sky Deutschland Fernsehen GmbH & Co. KG under the 2013/17 Bundesliga agreement. It has also provided back-to-back guarantees in favour of 21st Century Fox, Inc. in relation to UEFA Champions League and other programming obligations of Sky Italia Srl.

The Company has provided a parent company guarantee to SGH Stream Sub, Inc. in respect of the obligations of Sky Italian Holdings S.p.A. under the Sky Italia Srl Sale and Purchase Agreement dated 25 July 2014. The Company has also provided a parent company guarantee to 21st Century Fox Adelaide Holdings BV in respect of the obligations of Sky German Holdings GmbH under the Sky Deutschland AG Sale and Purchase Agreement dated 25 July 2014.

The Company has guarantees in place relating to the Group's borrowings, see note 22, and in relation to audit exemptions, see note 31.

## O. Transactions with related parties and major shareholders

	2016 £m	2015 £m
Supply of services to subsidiaries	219	229
Interest received from funding to subsidiaries	172	130
Interest on other loans and receivables with related parties	2	1
Amounts owed by subsidiaries	9,018	7,859
Amounts owed to subsidiaries	(3,325)	(3,394)

The Company has related-party transactions with its subsidiaries by virtue of its status as parent company of the Group. In particular, it is normal treasury practice for the Company to lend and borrow cash to and from its subsidiaries as required. Under this policy, Sky UK Limited settled liabilities of £106 million and €108 million (2015: £130 million and €17 million) on behalf of the Company during the year. Interest is earned on certain loans to subsidiaries.

The Company recognised £219 million (2015: £229 million) for licensing the Sky brand name to subsidiaries. The Company recognised dividends during the year from subsidiaries totalling £671 million (2015: £510 million).

The Group's related-party transactions are disclosed in note 30.

# Group financial record

## Unaudited supplemental information

### Consolidated results

Below is selected financial information for the Group under IFRS as at and for each of the five years ended 30 June.

	Year ended 30 June 2016 £m	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m	Year ended 30 June 2013 £m	Year ended 30 June 2012 £m
Consolidated Income Statement					
<b>Continuing operations</b>					
Revenue <sup>1</sup>	11,965	9,989	7,450	7,082	6,678
Operating expense <sup>2</sup>	(10,988)	(9,017)	(6,346)	(5,835)	(5,469)
<b>Operating profit</b>	<b>977</b>	<b>972</b>	<b>1,104</b>	<b>1,247</b>	<b>1,209</b>
Share of results of joint ventures and associates	2	28	35	46	39
Investment income	17	8	26	28	18
Finance costs	(244)	(283)	(140)	(108)	(111)
Profit on disposal of available-for-sale investment	-	492	-	-	-
Profit on disposal of associate	-	299	-	-	-
<b>Profit before tax</b>	<b>752</b>	<b>1,516</b>	<b>1,025</b>	<b>1,213</b>	<b>1,155</b>
Taxation	(89)	(184)	(205)	(267)	(274)
<b>Profit for the year from continuing operations</b>	<b>663</b>	<b>1,332</b>	<b>820</b>	<b>946</b>	<b>881</b>
<b>Discontinued operations</b>					
Profit for the year from discontinued operations	-	620	45	33	25
<b>Profit for the year</b>	<b>663</b>	<b>1,952</b>	<b>865</b>	<b>979</b>	<b>906</b>
Profit (loss) for the year attributable to:					
Equity shareholders of the parent company	666	1,957	865	979	906
Non-controlling interests	(3)	(5)	-	-	-
Net profit (loss) recognised directly in equity	378	(625)	73	129	64
<b>Total comprehensive income for the year</b>	<b>1,041</b>	<b>1,327</b>	<b>938</b>	<b>1,108</b>	<b>970</b>
Earnings per share from profit for the year (in pence)					
Basic	39.0p	115.8p	55.4p	60.7p	52.6p
Diluted	38.7p	114.4p	54.9p	59.7p	52.2p
Dividends per share (in pence)	33.5p	32.8p	32.0p	30.0p	25.4p
	30 June 2016 £m	30 June 2015 £m	30 June 2014 £m	30 June 2013 £m	30 June 2012 £m
Consolidated Balance Sheet					
Non-current assets	12,708	10,799	3,876	3,776	3,234
Current assets	4,702	4,559	2,573	2,569	2,275
Total assets	17,410	15,358	6,449	6,345	5,509
Current liabilities	(4,326)	(4,204)	(2,519)	(2,317)	(2,098)
Non-current liabilities	(9,643)	(7,930)	(2,858)	(3,016)	(2,467)
Net assets	3,441	3,224	1,072	1,012	944
Number of shares in issue (in millions)	1,719	1,719	1,563	1,594	1,674

	30 June 2016 ('000)	30 June 2015 ('000)	30 June 2014 ('000)	30 June 2013 ('000)	30 June 2012 ('000)
Statistics					
<b>Products</b>					
UK & Ireland	40,373	38,036	34,775	31,634	28,365
Germany & Austria	8,042	7,133	-	-	-
Italy	8,640	8,614	-	-	-
<b>Total paid-for subscription products</b>	<b>57,055</b>	<b>53,783</b>	<b>34,775</b>	<b>31,634</b>	<b>28,365</b>
<b>Customers</b>					
UK & Ireland	12,446	12,001	11,495	11,153	10,606
Germany & Austria	4,626	4,280	-	-	-
Italy	4,742	4,725	-	-	-
Retail customers	21,814	21,006	11,495	11,153	10,606
UK & Ireland	3,923	4,028	4,041	3,677	3,672
Germany & Austria	144	146	-	-	-
Italy	-	-	-	-	-
Wholesale customers <sup>3</sup>	4,067	4,174	4,041	3,677	3,672
<b>Total customers</b>	<b>25,881</b>	<b>25,180</b>	<b>15,536</b>	<b>14,830</b>	<b>14,278</b>
Churn					
UK & Ireland	11.2%	9.8%	10.9%	10.7%	10.2%
Germany & Austria	9.9%	8.6%	-	-	-
Italy	11.1%	9.6%	-	-	-

1 Included within revenue for the year ended 30 June 2014 is a £15 million credit received following the termination of an escrow agreement with a current wholesale operator.

2 Included within operating expense for the year ended 30 June 2016 are costs of £4 million in relation to advisory and transaction fees incurred on the purchase of Sky Deutschland and Sky Italia, costs of £142 million relating to corporate restructuring and efficiency programmes, costs of £84 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group, costs of £343 million relating to the amortisation of acquired intangibles and costs of £8 million relating to the remeasurement of derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness.

Included within operating expense for the year ended 30 June 2015 are costs of £50 million in relation to advisory and transaction fees incurred on the purchase of Sky Deutschland and Sky Italia, costs of £105 million relating to corporate restructuring and efficiency programmes, costs of £10 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group and costs of £231 million relating to the amortisation of acquired intangibles.

Included within operating expense for the year ended 30 June 2014 are costs of £49 million relating to the integration of the O2 consumer broadband and fixed-line telephony business, costs of £40 million relating to a corporate restructuring and efficiency programme, £2 million as a result of the termination of an escrow agreement with a current wholesale operator and £23 million relating to the amortisation of acquired intangibles.

Included within operating expense for the year ended 30 June 2013 is a credit of £32 million in relation to a credit note received following an Ofcom determination, a credit of £33 million relating to the final settlement of disputes with a former manufacturer of set-top boxes (net of associated costs), costs of £31 million relating to one-off upgrade of set-top boxes, costs of £33 million relating to a corporate efficiency programme and costs of £15 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business. Also included are costs of £25 million relating to the programme to offer wireless connectors to selected Sky Movies customers.

Included within operating expense for the year ended 30 June 2012 is a credit of £31 million in relation to the News Corporation (subsequently renamed 21st Century Fox, Inc.) proposal in 2011 consisting of costs incurred offset by the receipt of the break fee. Also included are restructuring costs of £11 million which comprise severance payments in relation to approximately 35 senior roles as part of a restructuring initiative to improve operating efficiency.

3 Wholesale customers are customers who take a package, from one of Sky's Wholesale Partners, in which they receive at least one paid-for Sky channel.

## Consolidated results (continued)

### Factors which materially affect the comparability of the selected financial data

#### Basis of preparation

Fiscal 2016 includes 53 weeks of trading compared with 52 weeks in all other years.

#### Discontinued operations

During fiscal 2015, the Group sold a controlling stake in its online betting and gaming business. For further details see note 3 to the consolidated financial statements.

#### Available-for-sale investment

During fiscal 2015, the Group disposed of its remaining investment in ITV. For further details see note 5 to the consolidated financial statements.

#### Business combinations and profit on disposal of associate

During fiscal 2015, the Group completed the acquisitions of Sky Deutschland and Sky Italia. As part of the consideration for the purchase of Sky Italia the Group disposed of its shareholding in the National Geographic channel. For further details see note 6 to the consolidated financial statements.

During fiscal 2013, the Group completed the acquisition of the O2 consumer broadband and fixed-line telephony business from Telefónica UK, comprising 100% of the share capital of Be Un Limited. The results of this acquisition were consolidated from the date on which control passed to the Group (30 April 2013).

#### Exchange rates

A significant portion of the Group's liabilities and expenses associated with the cost of programming acquired from US film licensors together with set-top box costs are denominated in US dollars. A significant portion of the Group's revenues and expenses associated with its operations in Germany and Austria and Italy are denominated in euros. For a discussion of the impact of exchange rate movements on the Group's financial condition and results of operations, see note 24 to the consolidated financial statements.



# Non-GAAP measures

## Unaudited supplemental information

### Consolidated Income Statement – reconciliation of statutory and adjusted numbers

	Notes	2016		
		Statutory £m	Adjusting Items £m	Adjusted £m
<b>Revenue</b>				
Subscription		10,185	–	10,185
Transactional		197	–	197
Programme and Channel Sales		642	–	642
Advertising		778	–	778
Other		163	–	163
		11,965	–	11,965
<b>Operating expense</b>				
Programming	A	(5,217)	54	(5,163)
Direct network costs		(939)	–	(939)
Sales, general and administration	B	(4,832)	527	(4,305)
		(10,988)	581	(10,407)
<b>EBITDA</b>		1,970	208	2,178
<b>Operating profit</b>				
Share of results of joint ventures and associates	C	2	7	9
Investment income		17	–	17
Finance costs	D	(244)	6	(238)
<b>Profit before tax</b>		752	594	1,346
Taxation	E	(89)	(180)	(269)
<b>Profit for the year from continuing operations</b>		663	414	1,077
Loss attributable to non-controlling interests		3	(3)	–
Profit from continuing operations attributable to equity shareholders of the parent company		666	411	1,077
<b>Earnings per share (basic)</b>		39.0p	24.1p	63.1p

Notes: explanation of adjusting items for the year ended 30 June 2016

- A Costs of £28 million relating to corporate restructuring and efficiency programmes, costs of £18 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group and costs of £8 million relating to the remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness.
- B Advisory and transaction fees of £4 million incurred on the purchase of Sky Deutschland and Sky Italia, costs of £114 million relating to corporate restructuring and efficiency programmes (including depreciation and amortisation of £11 million), costs of £66 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group (including depreciation and amortisation of £19 million), and amortisation of acquired intangible assets of £343 million.
- C Amortisation of acquired intangible assets of £7 million.
- D Finance costs of £6 million relating to the remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness.
- E Tax effect of adjusting items.

**Consolidated Income Statement – reconciliation of statutory and adjusted numbers (continued)**

	Notes	2015				Like for Like £m
		Statutory £m	Adjusting Items £m	Excluding Adjusting items £m	Adjusted Germany & Austria, Italy pre-acquisition £m	
<b>Revenue</b>						
Subscription		8,518	-	8,518	1,179	9,697
Transactional		153	-	153	20	173
Programme and Channel Sales		541	-	541	9	550
Advertising		649	-	649	67	716
Other		128	-	128	19	147
		9,989	-	9,989	1,294	11,283
<b>Operating expense</b>						
Programming	A	(4,172)	10	(4,162)	(724)	(4,886)
Direct network costs		(840)	-	(840)	-	(840)
Sales, general and administration	B	(4,005)	386	(3,619)	(538)	(4,157)
		(9,017)	396	(8,621)	(1,262)	(9,883)
<b>EBITDA</b>		1,738	163	1,901	129	2,030
<b>Operating profit</b>		972	396	1,368	32	1,400
Share of results of joint ventures and associates		28	-	28		
Investment income		8	-	8		
Finance costs	C	(283)	75	(208)		
Profit on disposal of available-for-sale investment	D	492	(492)	-		
Profit on disposal of associate	E	299	(299)	-		
<b>Profit before tax</b>		1,516	(320)	1,196		
Taxation	F	(184)	(67)	(251)		
<b>Profit for the year from continuing operations</b>		1,332	(387)	945		
Loss attributable to non-controlling interests		5	(3)	2		
Profit from continuing operations attributable to equity shareholders of the parent company		1,337	(390)	947		
<b>Earnings per share (basic)</b>		79.1p	(23.1p)	56.0p		

Notes: explanation of adjusting items for the year ended 30 June 2015

A Costs of £10 million relating to corporate restructuring and efficiency programmes.

B Advisory and transaction fees including, inter alia, financial advisory costs, corporate legal advice, due diligence reporting, assurance services and tax advice of £50 million incurred on the purchase of Sky Deutschland and Sky Italia, costs of £95 million relating to corporate restructuring and efficiency programmes (including amortisation of £2 million in relation to associated intangible assets), costs of £10 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group, and amortisation of acquired intangible assets of £231 million.

C Finance costs of £57 million incurred in connection with £6.6 billion of firm underwritten debt facilities and other associated transaction costs relating to the purchase of Sky Deutschland and Sky Italia and costs of £18 million relating to the remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness.

D Profit on the sale of shareholding in ITV and gain on equity interest in Sky Deutschland held prior to the acquisition.

E Profit on disposal of a shareholding of 21% in NGC Network International LLC and a shareholding of 21% in NGC Network Latin America LLC.

F Tax effect of adjusting items.

## Reconciliation of cash generated from operations to adjusted free cash flow

for the year ended 30 June 2016

	Note	2016 £m	2015 £m
<b>Cash generated from continuing operations</b>	27	<b>2,086</b>	<b>2,080</b>
Interest received		10	9
Taxation paid		(189)	(219)
Dividends received from joint ventures and associates		20	25
Funding to joint ventures and associates		(8)	(10)
Purchase of property, plant and equipment		(542)	(385)
Purchase of intangible assets		(432)	(357)
Interest paid		(231)	(246)
<b>Free cash flow</b>		<b>714</b>	<b>897</b>
Cash paid relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group		34	8
Cash paid relating to corporate restructuring and efficiency programmes		22	34
Cash paid under provisions recognised in prior periods		16	5
Cash paid relating to advisory and transaction fees and finance costs incurred on the purchase of Sky Deutschland and Sky Italia		-	110
Cash paid relating to the integration of the O2 consumer broadband and fixed-line telephony business		-	3
Payment following termination of an escrow agreement with a current wholesale operator		-	3
<b>Adjusted free cash flow</b>		<b>786</b>	<b>1,060</b>

Where appropriate amounts above are shown net of applicable corporation tax.

# Shareholder information

## Annual General Meeting

The venue and timing of the Company's AGM is detailed in the notice convening the AGM which will be available for download from the Company's corporate website at [sky.com/corporate](http://sky.com/corporate)

## Financial calendar

Results for the financial year ending 30 June 2017 will be published in:

October 2016  
January 2017\*  
April 2017\*  
July 2017\*

\* Provisional dates

## The Sky website

Shareholders are encouraged to visit the Sky website [sky.com](http://sky.com) which has a wealth of information about the Company. There is a section designed specifically for investors at [sky.com/corporate](http://sky.com/corporate) where investor and media information can be accessed. This year's Annual Report and Notice of AGM, together with prior year documents, can be viewed there along with information on dividends, share price and avoiding shareholder fraud.

## Managing your shares and shareholder communications

The Company's shareholder register is maintained by its Registrar, Equiniti. Information on how to manage your shareholdings can be found at [help.shareview.co.uk](http://help.shareview.co.uk)

Shareholders can contact Equiniti on the details below in relation to all administrative enquiries relating to their shares, such as a change of personal details, the loss of a share certificate, out-of-date dividend cheques, change of dividend payment methods and how to apply for the Dividend Reinvestment Plan.

Shareholders who have not yet elected to receive shareholder documentation in electronic form can sign up by registering at [shareview.co.uk](http://shareview.co.uk). Should Shareholders who have elected for electronic communications require a paper copy of any of the Company's shareholder documentation, or wish to change their instructions, they should contact Equiniti.

## Shareholder Contact Centre

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA  
Telephone: 0371 384 2091\*  
Telephone number from outside the UK: +44 121 415 7567

\* Lines are open Monday to Friday 8.30am to 5.30pm; excluding UK Bank Holidays.

## ShareGift

Shareholders who only have a small number of shares whose value makes it uneconomic to sell them may wish to consider donating them to charity through ShareGift, the independent charity share donation scheme (registered charity no. 1052686). Further information may be obtained from ShareGift on 020 7930 3737 or at [sharegift.org](http://sharegift.org)

## Shareholder fraud

Fraud is on the increase and many shareholders are targeted every year. If you have any reason to believe that you may have been the target of a fraud, or attempted fraud in relation to your shareholding, please contact Equiniti immediately.

## Dividends

Dividends can be paid directly into your bank account. This is the easiest way for shareholders to receive dividend payments and avoids the risk of lost or out-of-date cheques. A dividend mandate form is available from Equiniti or at [www.shareview.co.uk](http://www.shareview.co.uk)

If you are a UK taxpayer, please note that the Government has announced that from 6 April 2016 the Dividend Tax Credit has been replaced by a tax-free Dividend Allowance of £5,000. Any dividends received above this amount will be subject to taxation. Dividends paid on shares held within pensions and Individual Savings Accounts ('ISAs') will continue to be tax-free. Further information can be found at [www.gov.uk/tax-on-dividends](http://www.gov.uk/tax-on-dividends)

From 6 April, the 'Dividend Tax Voucher' has been replaced by a 'Dividend Confirmation'. An Annual Dividend Confirmation is available for shareholders who have chosen to receive dividends directly into their bank account. The single Annual Dividend Confirmation will be mailed by the end of November each year, to coincide with the final dividend payment.

Equiniti are also able to pay dividends to shareholder bank accounts in over 30 currencies worldwide through the Overseas Payment Service. An administrative fee will be deducted from each dividend payment. Further details can be obtained from Equiniti or online at [www.shareview.co.uk](http://www.shareview.co.uk)

## Dividend Reinvestment Plan

The Company operates a Dividend Reinvestment Plan ('DRIP') which enables shareholders to buy the Company's shares on the London stock market with their cash dividend. Further information about the DRIP is available from Equiniti.

## American Depositary Receipts ('ADR')

The Company's ADR programme trades on the over-the-counter ('OTC') market in the US. More information can be obtained from the Company's corporate website at [sky.com/corporate](http://sky.com/corporate)

All enquiries relating to the Company's ADRs should be addressed to:

BNY Mellon Shareowner Services  
PO Box 30170  
College Station, TX 77842-3170  
US residents: (888) 269 2377  
If resident outside the US: +1 201 680 6825  
email: [shrrelations@cpushareownerservices.com](mailto:shrrelations@cpushareownerservices.com)

## Company's registered office

Grant Way  
Isleworth  
Middlesex  
TW7 5QD  
Telephone 0333 100 0333  
Overseas +44 333 100 0333

## Company registration number

Registered in England and Wales under number 2247735.

## Auditor

Deloitte LLP  
2 New Street Square  
London  
EC4A 3BZ

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