

A woman with long, wavy hair, wearing a shimmering, metallic, one-shoulder dress, is floating in a swimming pool. She is looking upwards and to the right. The pool's bottom is covered in a green mosaic tile pattern. In the background, there are palm trees and a sandy beach under a warm, golden light. The word "SLAY" is written in large, metallic, 3D letters across the middle of the pool.

# SLAY

Annual Report 2017



# Delivering the very best content, world-leading product innovation and outstanding service

At Sky we provide millions of our customers with the very best TV experience. That means offering them the best entertainment from major live sporting events, gripping drama, great US and home-grown shows 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.



Sky Sports F1®



Moana

©Disney Enterprises, Inc.

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Sky Q



Master of Photography

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

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

For more about our wider contribution go to [skygroup.sky/corporate/bigger-picture](http://skygroup.sky/corporate/bigger-picture)

# At a glance

Europe's leading entertainment company

£12.9bn  
revenue<sup>1</sup>

£1.5bn  
operating profit<sup>1</sup>

£964m  
statutory operating profit

Our contribution to wider society

£13.6bn  
Sky's contribution to European GDP

216,800  
total number of European jobs supported by Sky

World-class content

£6bn  
annual content investment

100+ Sky Original Productions



The Young Pope

Industry leading innovations and products



Sky Q in over 1 million UK customer homes



Additional revenue streams

sky | MEDIA

sky | ADSMART

sky | VISION





22.5m  
customers

31,000+  
employees

5 countries  
UK and Ireland  
Germany and Austria  
Italy

£4.8bn  
total annual tax contribution  
across the five countries

5m  
people engaged through  
Sky Ocean Rescue

170,264  
young people reached  
through Sky Academy

The best acquired content



Game of Thrones



Bundesliga

Our flagship brands



Delivering for  
shareholders

40.6p<sup>+4.1%</sup>  
statutory earnings per share

61.4p<sup>-2.7%</sup>  
earnings per share<sup>1</sup>

1 This is an adjusted measure and a reconciliation between statutory and adjusted measures can be found on page 141.

# Chairman's statement



**James Murdoch**  
Chairman

**The past year has seen Sky build on its position as one of the world's leading entertainment and communications businesses – and we continue to have a significant positive impact on our customers' lives.**

Our success is driven by each of our colleagues' determination to deliver the very best content, world-leading product innovation and outstanding service for our customers.

As a business, we know value is created by investing in our people while being as efficient as possible and thinking for the long term. In the past decade, we have consistently moved into new markets, opened up new customer segments and expanded our range of products and services.

This year we have successfully scaled up our businesses in Italy, Germany and Austria and have offered all our customers new technologies, new services and world-class content that we believe is unmatched in our industry. This has helped us to now regularly reach more than 100 million viewers across Europe.

While creating shareholder value drives our business, we also ensure that we make a significant contribution to the countries and communities in which we operate. As a leader in the European creative industries, we generated £4.8 billion in tax revenues, employed 31,496 people directly, supported a further 216,800 indirect jobs and contributed £13.6 billion to Europe's GDP.

Our determination to have a positive impact stretches across all aspects of our business. A pan-European initiative like Sky Ocean Rescue, which has already engaged over five million people since it launched in January 2017, along with celebrating 11 years as a carbon neutral company, reflect our commitment to the environment while building a better more sustainable business.

As you know, on 7 December 2016, 21st Century Fox made an approach to the Deputy Chairman of Sky, Martin Gilbert, to acquire the balance of shares in Sky not owned by 21st Century Fox. After a period of negotiation, the Independent Directors recommended the offer on 15 December 2016 subject to regulatory and shareholder approvals. The offer process is ongoing and shareholders will be kept fully informed.



I would like to take this opportunity to thank Dave Lewis for his contribution to Sky since joining the Board in 2012. As announced last year, Dave stepped down from the Board in October at our AGM, and we welcomed Katrin Wehr-Seiter, who was appointed as an Independent Non-Executive Director. On behalf of the Board, I would also like to thank all of our shareholders for their continued support over the year.

Finally, I would like to thank our people. This is a great company with an experienced and talented team who are all committed to the highest standards of excellence in our industry, enabling us to create opportunities for growth and positively contribute to the lives of our customers and the communities where we and they live and work.



James Murdoch



Guerrilla



Sky Ocean Rescue

# Group Chief Executive's statement



**Jeremy Darroch**  
Group Chief Executive

## Sky has had a strong year delivering on our growth strategy.

It's been another good year for Sky and we have delivered a strong performance in all markets. We have made excellent progress in advancing all areas of our business plan, combining solid operational delivery with a range of new initiatives that we believe can deliver further strong growth.

At the heart of Sky, is a relentless focus on delivering three things – the best and broadest range of content, innovative products and excellent customer value and service. This approach, delivered by talented and dedicated people, is what allows us to consistently create value for our shareholders and enjoyment for our customers, while contributing strongly to the communities in which we live and work.

### Strong results and a year of significant delivery

We have made good progress against the priorities that create sustainable value for our shareholders over the medium term. This is achieved by providing the broadest range of the best content for every household, innovating at pace to create the best products and extending our lead as the number one customer service brand in our space. At the same time, we will look to expand into new markets and build new revenue streams, all underpinned by sustained operating cost improvement.

Delivering on this has ensured that our full year financial performance was strong. Revenue growth was 10% (5% on a constant currency basis) at £12.9 billion<sup>1</sup> with all markets and categories in growth. Operating profit of £1,468 million<sup>1</sup> was £97 million below last year after absorbing the step up in UK Premier League costs, investment in new businesses and on screen.

We continued to make excellent progress in improving our operational efficiency and delivered further cost savings, with operating costs down by 3% as a percentage of revenue. We delivered our £200 million synergy target six months ahead of schedule and are now working towards a £400 million target by the end of 2020. This approach allows us to keep investing in our customer offer while delivering our long-term financial targets for the business.

Customer growth, despite challenging consumer environments, continued to be strong. We added 686,000 new customers over the year across our platforms and territories, growing our overall customer base to 22.5 million. At the same time, we grew paid-for products by a further 2.7 million with strong growth from the likes of Sky Mobile, UHD and multiscreen.

In the UK and Ireland, we continued our focus on delivering returns from the content and product investments we have made over the last few years. We are targeting broadly based revenue growth with a number of new products and services such as mobile, transactional services and our targeted advertising product AdSmart, alongside our subscription business. Delivering on these priorities has led to a good financial and operational performance in this market.

<sup>1</sup> This is an adjusted measure and a reconciliation between statutory and adjusted measures can be found on page 141.





**Joshua v Klitschko press conference**

Our performance in Germany and Austria has been very strong as we pursue the significant opportunity that exists in Europe's largest TV market. Our drive towards broadening our customer proposition and developing a range of products and services to suit the whole market has delivered excellent customer growth.

And in Italy, despite a particularly challenging general consumer environment, we have successfully grown our customer base and operating profits have reached their highest level for five years. Our loyalty programme attracted over two million members and we continued to add value to customer subscriptions with the launch of Sky Go Extra, the Sky Kids App and a new Sky Sports app.

### **Investing £6 billion on screen makes us Europe's leading investor in content**

This was our best year ever on screen and our slate of Sky productions continued to enhance our track record for producing world-class entertainment which our customers love. Our channels now consistently reach over 100 million people every quarter.

In the UK, Riviera delivered almost 12 million downloads, making it our most popular premiere box set release ever. In Italy, a new series of the original drama *1993* was the second best performing series on Sky Atlantic behind the extremely popular *The Young Pope*. In Germany and Austria, the locally produced *Babylon Berlin* and *Das Boot* are eagerly anticipated in the upcoming financial year where we will be growing our Sky Originals investment by a further 25%.

During the year we cemented our position as the partner of choice for content and channel providers all over the world, renewing our partnerships with NBCUniversal, Discovery and A+E Networks, along with launching a co-production partnership with our long-term partner HBO.

The extension of these long-term rights deals means that we have more new shows than ever before while ensuring that we continue to provide our customers with the best acquired content alongside Sky's original productions. Our partners' trust in Sky as the custodian of their brands means we can give our customers access to a portfolio of the world's best channels and movies.

In Italy, we launched Vision Distribution, a new theatrical distribution company set up as part of a deal agreed with five of Italy's top independent producers. Sky will hold all TV rights to the titles released by Vision Distribution, which ensures ongoing premium Italian movie content for our customers.

Sky Sports performed well across the Group. It is the breadth and range of our offering, and the choices we make in where to invest, that enables us to effectively monetise sports rights and ensure broad customer appeal.

In football, Serie A, Bundesliga and Champions League achieved record-breaking audiences, and while Premier League viewing was down as a result of, among other factors, an additional ten games broadcast on the prior season, we saw the highest total reach in the Premier League for three years. Motorsport, including F1 and MotoGP, was up year on year and our pay-per-view Joshua v Klitschko fight exceeded one million buys – only the third time we have exceeded this number.

In 2017, we renewed or won a number of important sports rights that position us well for the long term. In the UK and Ireland, we agreed a new five-year partnership with the England and Wales Cricket Board, including the live rights to international and county cricket, taking our partnership with them to a total of 18 years. We also won the rights to domestic women's cricket and netball. In Germany and Austria, we remain the home of the UEFA Champions League for the next four years, following a successful rights renewal. In Italy we won rights to the Europa League and UEFA Champions League, further enhancing Sky's position as the leading sports service in Italy.

We continue to work with rights owners, enforcement groups and other industry partners to tackle piracy. Among other initiatives, we supported the English Premier League's High Court action to block the illegal streaming of matches which resulted in a significant reduction in the availability of illegal streams. We will continue to support such action as well as seek further legislative support to reduce this illegal activity.

## Group Chief Executive's statement – continued



Super Netball Grand Final

Sky News in the UK once again received acclaim for its coverage of major news events during the year and proved itself as a leader in real-time news. The strength of Sky News' journalism was recognised when the channel took home five Royal Television Society Journalism awards. With four of the awards coming in categories in which we had not previously won, the recognition reflects the continual hard work of the team and our ongoing evolution as a news organisation.

In Italy, Sky TG24 began the transfer of the majority of its operations to new hi-tech studios in Milan, and in Germany we opened our new in-house broadcasting facility, Sky Sports HQ in Munich. These advances will both improve efficiency and, through greater technical proficiency, deliver a superior product.

### Innovating at pace to create the best products

We have continued to innovate across the business, developing industry-leading products that are constantly improving and are giving customers a superior user experience. Such superior functionality is leading to greater engagement with our customers in the form of increased viewing, transacting and advocacy.

We launched Sky+ Pro in Germany and Austria into over 460,000 homes and in the UK we enhanced the already industry-leading Sky Q with voice search, new personalisation features and even more UHD content. Sky Q is now the number one reason for joining Sky in the UK and we look forward to launching Sky Q without a satellite dish and unlocking a currently untapped customer base.

As consumers seek flexibility to access content, we continue to broaden our offering to ensure we are serving the whole market. We launched pay-lite streaming services in Germany and Austria, Italy and Ireland as well as our NOW TV combo in the UK. We also continued to make big strides in delivering content across multiple platforms with the introduction of Sky Go Extra in Italy, the new Sky Sports app in the UK and the Sky Kids and Sky VR apps across all of our regions, making us Europe's leading streaming service.

In communications, our broadband business in the UK continues to grow and we have added a number of new products to better serve our customers. We have also been able to leverage the strength of our brand and industry-leading customer service to launch Sky Mobile and create another revenue and future profit stream. While it is early days, we are excited by the opportunity.

### Best in class customer service

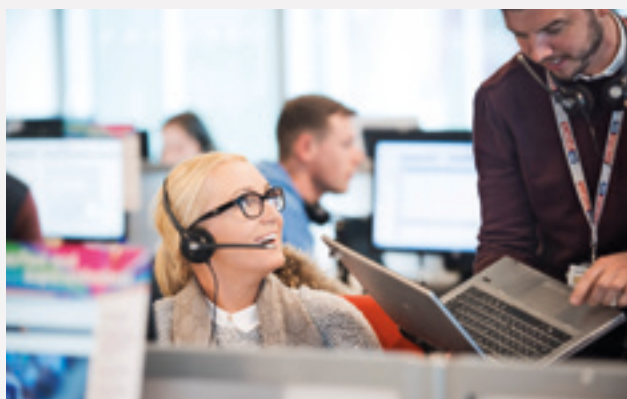
Excellence in customer service is at the heart of what we do and we are constantly seeking ways to get even better. This is why we have extended our leadership position in all markets.

In the UK we topped Ofcom's league tables for customer service across every quarter and every product category, while in Italy customer satisfaction is at its highest level in three years and in Germany, customer satisfaction levels are continually improving.



Sky+ Pro





#### Excellence in customer service

This year we launched a step change in customer service as we move from direct contact to digital first. We have now rolled out new digital service apps across all our territories which have been well received by customers. In the UK, where this service has been in the market the longest via the My Sky App, 50% of all interactions are now digital, which is driving enhanced customer satisfaction while reducing costs.

As evidenced by the outstanding success of the Sky Extra loyalty programme in Italy, rewarding customers for their loyalty clearly has tangible benefits. Record customer satisfaction levels and industry-leading levels of churn illustrate how well customers in this market have responded to this initiative. We will be taking these learnings and rolling out similar programmes in the UK and Germany in the coming year.

#### How we do business

How we do business is a core part of who we are. We recognise that Sky sits at the heart of millions of customers' lives and we seek to use our voice to make a difference in the areas customers care about.

Our major new environmental awareness initiative, Sky Ocean Rescue, has now fully launched across the Group, following World Oceans Day in June. The campaign to engage consumers on the health of our oceans, starting with single use plastics, is running across all business channels – led by news coverage and documentaries; supported by on-screen programming,

on our websites and social media channels; and via internal engagement across Sky. The campaign has reached over 100 million people online and on air to date, with more than five million having engaged in the campaign.

We have supported more than 170,264 young people with our initiatives over the past year. Sky Sports Living for Sport over the past 14 years has developed and built skills in around a third of the UK and Ireland's secondary schools; the launch of the Sky Academy Studios in Milan has welcomed 5,570 young people through its doors since opening in Q2; and the Sky Foundation in Germany has supported more than 5,663 children with year-round sports programmes across the country.

#### Our people

Central to everything we do at Sky is our culture. We work hard to be an inclusive employer, so everyone at Sky can be themselves and give their best.

In a high-performing, consumer facing organisation like ours, we have developed a talented, capable and dedicated workforce that is committed to creating success for all of our stakeholders. I am constantly grateful for their contribution to our business. Sky's history of renewal and constant improvement has been led by our people, and we recognise that investment in their training and development is central to our ambition.

#### Looking to the future

We exit the financial year in a strong position with significant growth potential. We provide our customers with world-class content, innovative products and industry-leading customer service, through a committed and talented team. We are focused on delivering strong and sustained financial performance and returns over the long term and have an appetite to invest to achieve this while maintaining a strong financial position. Alongside this we seek to make a wider contribution to the communities in which we live and work. We believe this is the right approach in the interests of all our stakeholders and we are optimistic for the future.

Jeremy Darroch



Sky Sports Living for Sport

# Our marketplace, strategy and business model

## Our marketplace

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 22.5 million customers to whom we can offer more products. In addition, around 64 million households have yet to take pay TV in our core markets, giving us substantial headroom to address this 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.

64m

households have yet to take pay TV

22.5m

customers to sell more products to

£3.5bn

value of transactional home video markets

£11bn

value of TV advertising market

### 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 £3.5 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 an advertising market worth £11 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 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 strategy 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 broadly based revenue growth which, together with our focus on operating efficiency, creates 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 a deep understanding of our 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, 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 64 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.

#### 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 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, allowing 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 do 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 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<sup>1</sup>

£12,916m



#### Description

Adjusted revenue includes revenue from Subscription, Transactional, Channel and Programme sales, Advertising and Other revenue. 2016 revenue excludes the benefit from the 53rd Week.<sup>2</sup>

#### Analysis

Adjusted revenue is a key measure of how the Group is delivering on its strategy to grow the business. In 2017, revenue grew by 10%, or 5% on a constant currency basis, with good growth in both content and distribution operations.

### Adjusted operating profit<sup>1</sup>

£1,468m



#### 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.<sup>2</sup>

#### Analysis

Adjusted operating profit is a key measure of the underlying business performance. In 2017 adjusted operating profit was down 6%. This was as a result of the increase in Premier League costs (up £629 million year on year), costs incurred to launch Sky Mobile (£51 million) and the start-up costs for our International OTT platform, though substantially offset by our strong revenue growth and excellent progress in operating efficiency.

### Adjusted EPS<sup>1</sup>

61.4p

#### Description

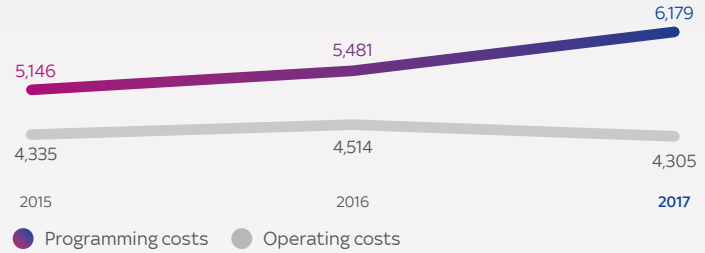
Adjusted basic EPS is the profit after tax for the year, excluding adjusting items and related tax effects, divided by the weighted average number of ordinary shares.

#### Analysis

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



### Programming and operating costs<sup>1</sup>



#### Description

Programming costs relate to the acquisition, commissioning and production of programming content. Operating costs are made up of marketing, costs to serve our customers and general administration.<sup>2</sup>

#### Analysis

Programming costs increased by £698 million as we continue to invest on screen for customers, including the £629 million increase in the new Premier League deal, a strong schedule of Sky Originals and an improved entertainment schedule. Operating costs fell by 5% reflecting the strong progress we made driving efficiencies through the business.

### Adjusted EBITDA<sup>1</sup>

£2,139m



#### 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.<sup>2</sup>

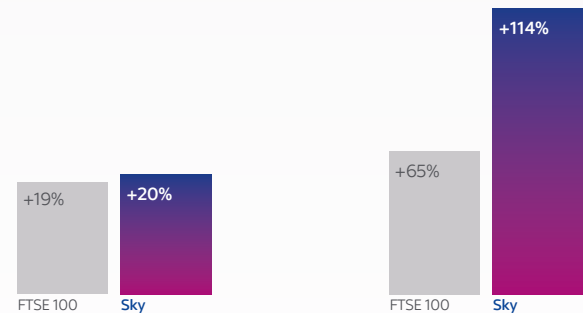
#### Analysis

Adjusted EBITDA is a key measure of profitability. In 2017 adjusted EBITDA decreased by 3% on the previous year. This was as a result of the increase in Premier League costs (up £629 million year on year), costs incurred to launch Sky Mobile and the start-up costs for our International OTT platform, though substantially offset by our strong revenue growth and excellent progress in operating efficiency.

### Total shareholder return

3-year

10-year



#### 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 (3-year) and long term (10-year) period illustrating the strong shareholder returns that Sky generates.

1 This is an adjusted measure and a reconciliation between statutory and adjusted measures can be found on page 141.  
2 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 prior year compared with 52 weeks in the current year and in 2015. The financial results of Italy and Germany are translated into sterling at a constant currency rate of €1.16: £1.



## Operational key performance indicators

### Retail customers

22.5m

+0.7m ▲

#### Description

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

#### Analysis

We added 686,000 new customers in the year with good growth in every market.

2016 21.8m

2015 21.0m

### Total average quarterly reach

102.3m

+4% ▲

#### Description

Viewers watching at least one Sky-owned channel (excl. Joint Ventures), both pay and free across UK, Germany and Italy.

#### Analysis

Our reach grew by 4% and we now regularly achieve over 100 million viewers each quarter across Europe.

2016 98.7m

2015 92.0m

### Connected homes

12.0m

+1.1m ▲

#### 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 1.1 million connected homes during the year and we now have over 12 million homes connected, which is 57% of all TV customers. We are now Europe's largest connected platform in our markets.

2016 10.9m

2015 9.0m

### Total products

59.7m

+2.7m ▲

#### 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, UHD, Multiscreen, Sky Go Extra, Broadband, Telephony, Mobile and Line Rental. In Italy, this includes TV, Multivision and paying HD. In Germany and Austria, this includes TV, Second Smartcard, Premium HD and Mobile TV.

#### Analysis

We have almost 60 million products across the Group having sold an additional 2.7 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, Sky Mobile and the Kids App in the UK, as well as Sky Go Extra in Italy.

2016 57.1m

2015 53.8m

## The Bigger Picture

### Social participation

170,264

#### Description

Our social reach number represents the number of young people who have participated in our social initiatives across the Group in the past 12 months. These initiatives are detailed on page 15.

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 157,700 in 2015/16 to 170,264 in 2016/17. This is made up of 158,946 in the UK and Ireland, 5,580 for our initiatives in Italy, and 5,738 for Sky Foundation in Germany.

Our full set of independently assured key performance indicators used to measure our sustainability performance can be found at [skygroup.sky/corporate/bigger-picture](http://skygroup.sky/corporate/bigger-picture)

### Carbon intensity

9.47tCO<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 indicators we use to measure our environmental performance. Our total gross tCO<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 122,267tCO<sub>2</sub>e for 2016/17 compared to 123,854tCO<sub>2</sub>e for 2015/16.

#### Analysis

Our carbon intensity has decreased in 2016/17 as a result of our continued investment in energy efficiency and renewable energy. 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

**Using our voice to inspire, create and act on issues our customers and our people care about.**

## What we do goes beyond business

At Sky, we're at the heart of millions of lives, in millions of homes. This gives us a platform to affect real change. What we choose to do with this platform says everything about who we are. That's why we aim for something better. That's why we're using our voice to inspire, create and act.

We are inspiring more people to participate in sport, at any level; creating new opportunities for young people to express themselves through storytelling; and taking positive action on major issues, and driving change. This is underpinned by our strong responsible business commitments.

All of this is built on a desire to make a difference. It's good for our customers, our people and for our business. That's why we're guided by clear values and a clear point of view, leading to meaningful initiatives that make a positive impact for today and the next generation.

Over the years, we've built a strong track record; becoming the world's first carbon neutral media company in 2006; getting over 1.6 million people to cycle more regularly; building confidence in 500,000 young people through sports; and saving one billion trees in the Amazon.

We're proud of the role we've played, but we want to go further. We will continue to inspire a new generation through the power of sports, invest further in creativity and diversity in our industry and encourage everyone to join in and support initiatives like Sky Ocean Rescue.

That's why we're focused more than ever on seeing the Bigger Picture.

## Responsible business

One of the key areas in which we bring our Bigger Picture strategy to life is responsible business. This includes our environmental footprint, how we make our products accessible and ensuring we're an inclusive employer.

### Positive footprint

We aim to have a positive impact on our planet. Two ways we do this are through maintaining our 10-year record as a carbon neutral business and by using our voice to inspire people to take action to protect our planet through long-term initiatives such as Sky Ocean Rescue. Our long-term ambition is to become a zero-carbon business.



Sky Ocean Rescue

As a Sky Group we began reporting on our environmental performance in 2014/15. Over the years we have reduced our carbon intensity by 8.50% from 10.35tCO<sub>2</sub>e in 2015/16 to 9.47tCO<sub>2</sub>e in 2016/17. In the UK and Ireland, we have been reporting on our environmental performance since 2008/09. We have reduced our emissions, in terms of tCO<sub>2</sub>e, relative to revenue, by 47% since our 2008/09 baseline, making significant progress towards our target to halve emissions by 2020.

Across our sites we've continued to focus on the investment in renewable energy and the energy efficiency of our buildings, including the installation of solar energy and combined heat and power (CCHP) plants.

We've also extended our renewable energy approach to our suppliers. Collaboration with our long-standing partner Zinwell resulted in the installation of large scale solar energy infrastructure on their Chinese site. We will continue to work with our partners on energy saving and renewable energy production, alongside reducing energy usage in the manufacturing and operation of our products.


We encourage customers to return their products to us at the end of their use and we ensure that these are all reused or recycled.

### Responsible sourcing and human rights

Our business relies on strong partnerships with thousands of suppliers and distributors. Our responsible sourcing principles set out the high ethical, environmental and social standards for suppliers and their supply chains. All suppliers we spend over £100,000 with have a risk assessment, and we work with suppliers that we deem high risk to help improve standards.

Over the year we have significantly increased our audit coverage with tier 1 suppliers and expanded audits to our tier 2 suppliers, which include manufacturers of component parts for Sky products. As part of our aim to collaborate with suppliers and other buyers, we have joined the Electronics Industry Citizenship Coalition and Tech UK. Through these groups we share information and collaborate on responsible sourcing issues such as working hours and employee wellbeing.

Sky respects the rights of everyone we impact through our activities and business relationships including our own people, those in our supply chain and our customers. We maintain policies which clearly set out our expectations for upholding human rights. We have again conducted our annual human rights risk assessment across our own operations and supply chains. This has helped us to identify focus areas which can be seen in our Modern Slavery Statement for 2017, along with policies.

 See our policies and Modern Slavery Statement at [skygroup.sky/corporate/bigger-picture](https://skygroup.sky/corporate/bigger-picture)

### Best experience for all 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, our Sky Broadband Shield is now automatically switched on for all customers. We also launched Sky Talk Shield, our personalised call-screening service which allows customers to block the calls they don't want to receive.

We continue to make the Sky experience more accessible so that everyone can enjoy the same great Sky experience regardless of their disabilities. For example, this year we launched subtitles on our on demand content for Sky Q, Sky+HD and NOW TV.

### Data protection

We have strong data protection governance and continue to invest in industry-leading security methods. As part of our data governance programme, we are building privacy principles into key projects and activities from the start, so that data protection is addressed at the design phase. This extends to how we work with our suppliers, partners and employees, so we all work together to protect personal data.



## Inclusion

It's our people that make Sky Europe's leading entertainment company and we know that embracing different perspectives fosters innovation. Having diverse voices contributes to the decisions we take as a business and helps us better anticipate and meet the needs of all our customers.

Our ambition is to become the industry leader for inclusion, both on screen and behind the scenes. To help us achieve this we are focused on increasing the representation of people from BAME (Black, Asian, and minority ethnic) backgrounds in our business and remain committed to achieving gender parity. We have put in place a range of initiatives to achieve this ambition and they're already making a difference. For example, we have increased the number of women in the top 400 positions from 32% to 39%. We are also actively supporting women to develop skills in traditionally under-represented areas, with initiatives such as 'Get into Tech'.

We support the aims of the new UK legislation requiring organisations to publish their gender pay gap and are committed to equal pay. We will publish our findings in due course.

 You can find out more on the diversity of our workforce at [skygroup.sky/corporate/bigger-picture](https://skygroup.sky/corporate/bigger-picture)

## Inspiring the next generation

### Inspiring the next generation in sport

This year we celebrated the achievement of one of our longest-running partnerships, Sky Sports Living for Sport. Working with the Youth Sport Trust, over half a million young people have taken part in this programme over 14 years. The free initiative uses sports projects to inspire young people and teach them skills such as teamwork to help boost their confidence. Delivered by a team of 135 world-class Athlete Mentors and supported by our Ambassadors, such as Thierry Henry, they have made 10,000 school visits to around a third of state secondary schools across the UK and Ireland. This was the final year of Sky Sports Living for Sport and our thanks go out to everyone involved in making this initiative a great success.

We're also helping some of the most promising young athletes from the UK and Ireland to fulfil their potential through our Sky Sports Scholarships, with 6 of our 11 athletes making it to the Olympics and Paralympics. These athletes include 2017 World Champion Short Track Speed Skater, Elise Christie; 2014 Commonwealth Middleweight Boxing Champion, Savannah Marshall; Olympic Silver medalist, Siobhan-Marie O'Connor and Mark English, a talented 800-metre runner who won silver in the European Indoor Championships. Well done to all our scholars.

Sky Racing Team VR46 was born from the close collaboration between Sky and Valentino Rossi, to identify and fast-track the young talent of Italian motorcycling and help the next generation of champions kick-start their dreams.

### Championing the next generation to be the best they can be, to create the stories of tomorrow

Since opening in 2012 more than 85,000 young people have visited Sky Academy Studios in London and Livingston to create their own news report. In November, we also launched Sky Academy Studios at our Italian headquarters in Milan and since then 5,570 young people have come through the doors.

We have supported the charity MAMA Youth since 2011, helping young people from under-represented groups to get into the media industry. MAMA Youth provides 12-week intensive training courses giving participants hands-on training and real-world experience by working on the Sky 1 show, *What's Up*. The young people gain experience as researchers, camera operators and video editors, followed by a paid placement in the creative industry. This year MAMA Youth took up residency on site at Sky in Osterley, with even more access to our production studios and the skills and expertise that Sky has to offer.

### Campaigning for action on important issues that affect the next generation

We want to use our voice to make a difference on issues that our customers and people care about, so this year we launched Sky Ocean Rescue, a group-wide campaign to save our oceans. We are shining a spotlight on the issues of ocean health, in particular on pollution caused by single-use plastics and inspiring millions of people across Europe to take positive action to save our oceans.

The campaign kicked off with a Sky News documentary called *A Plastic Tide*. The programme brings to life the dire state of the oceans as a result of the 8 million tonnes of plastic that end up in the sea every year. With special news programmes and social media campaigning, we've already reached over 100 million people and 5 million people have actively engaged with the campaign.

Inside Sky we're looking at everything we do that impacts the oceans. We've made a good start by removing all plastic water bottles, plastic cups and straws from our sites across Europe. This is a long-term campaign for us and we'll continue to make changes to reduce our impact, including our product packaging.

 Find out about Sky Ocean Rescue at [skyoceanrescue.com](https://skyoceanrescue.com)

 Find out more about how we're inspiring the next generation in our Bigger Picture Performance update at [skygroup.sky/corporate/bigger-picture](https://skygroup.sky/corporate/bigger-picture)



Sky Academy Studios



# Operational and financial review









# UK and Ireland

Sky in the UK and Ireland has built on its position as a world leader in customer-led entertainment and communications

12.7m

customers

4%

revenue growth

42m

products



Guerrilla

We achieved another positive performance in the UK and Ireland this year. As Sky's largest and most profitable business, our results were driven by our well established customer-centric strategy for growth and our powerful consumer brand. Our total customer base rose to 12.7 million, having added 280,000 new customers in the course of the year.

Continued strong demand for our products and services was reflected by the addition of 1.6 million new paid-for products. UK revenues increased by 4% to £8.6 million<sup>1</sup>, with UK EBITDA of £1,743 million<sup>1</sup> and an operating profit of £1,292 million<sup>1</sup>.

## Innovation

We are the leading innovator in our space, driving innovation at scale for our customers, enabling them to get even greater value from Sky. We identify the most important trends in technology and changes in consumer behaviour and create products and services for customers in these emerging areas.

With the launch of Sky Mobile, we brought something entirely different to the UK mobile market. For the first time ever, mobile phone owners were given the opportunity to roll over their unused data allowance for up to three years, to be redeemed whenever they like, while also having the flexibility to change their plan every month. Additionally, Sky TV customers were offered even greater value with both free UK calls and texts with any Sky Mobile plan, plus the ability to sync Sky+ recordings to their phones.

Enhancements to our Sky Q platform, which is already in over one million homes, meant that we have continued to lead the way in improving the customer viewing experience. Voice search, 'find my remote' and the ability to pause and carry on from TV to tablet around the house, is changing the way people watch and interact with their TV. We added to the widest range of Ultra HD programming available, from drama, movies and sport. The launch of Box Sets within Sky Store helped drive an increase of 15% in transactional business this year.



Joshua v Klitschko

<sup>1</sup> This is an adjusted measure and a reconciliation between statutory and adjusted measures can be found on page 141.



My Sky App

We launched the industry's first contract-free triple-play proposition with the NOW TV combo. In addition to our new NOW TV Smart Box, we introduced live pause and rewind functionality, plus a wide range of live and on demand free and pay TV.

We also continued to make good progress with our Sky Media business, particularly through our targeted advertising platform Sky AdSmart. This year we signed up Viacom, Channel 5 became the first PSB to use the service, and we launched Sky AdSmart in Ireland, all of which helped our advertising business to outperform the market. We entered a targeted advertising partnership with Virgin Media in the UK, which launches next year.

### Content

Much of our success can be attributed to an exceptional year on screen. In 2017, we increased the depth of programming across our portfolio, most notably in original content, but also through securing important long-term rights renewals with major networks.

**In entertainment**, we brought outstanding writing, directing and acting talent to Sky. In terms of new original productions, the critically acclaimed *Guerrilla* came to screen in the UK along with *Jamestown* and *Fortitude 2*. *Riviera* was another highlight, becoming the biggest drama premiere of the calendar year with almost 12 million downloads so far. We also announced the commissioning of new series' of *A League of Their Own*, Stan Lee's *Lucky Man*, and *Delicious*; demonstrating the growing maturity of our portfolio.

Sky Atlantic has continued to build on its position as the destination for the world's best storytelling, with the latest series of *Game of Thrones* from HBO, joining Showtime's *Billions* and the return of *Twin Peaks* in generating record audiences.

**In movies**, it was a great year. Sky Cinema had a record seven million downloads over the Christmas week with customers downloading 500 million movies throughout the year. The partnership deals we have with all of the biggest studios in the world ensures our customers continue to enjoy the latest premieres and most loved classics.

**In sport**, we also won a number of new sports rights including the inaugural season of the UEFA Nations League, UEFA European Under-21 Championships and domestic women's cricket and netball in the UK. We agreed a new five-year partnership with the England and Wales Cricket Board, including the live rights to international and county cricket. We are broadcasting every race from the next two seasons of F1 on our dedicated F1 channel and Sky Sports will be the only place showing live Formula 1 from 2019. We also launched a new sports channel, Sky Sports Mix, which has been viewed by over 11 million people and shown 40 different sports.

### Customers

We believe our industry-leading customer service gives us a competitive advantage. This year Sky was once again recognised by the industry regulator, Ofcom, as topping the customer satisfaction scores of any provider across TV, broadband and phone. We are focused on increasing our leadership in this area and have revitalised our My Sky app – a key step in our journey to digital-first customer interaction and management. Now with almost two million downloads, the customer response has exceeded expectations. We will launch a new loyalty programme in the UK, Sky VIP, which will deliver tangible results for both customers and the business in the coming year.

### Bigger Picture

As part of our commitment to responsible business, we're minimising our environmental impact, achieving a 5.5% reduction in carbon intensity in the UK. We also won the EU Code of Conduct award for energy efficiency in data centres and maintained our industry-leadership position with our data centres being 65% more efficient than the industry average.

Our Sky Academy Studios welcomed 19,344 young people through the doors this year and we celebrated our 14-year Sky Sports Living for Sport initiative, with half a million young people having taken part since its inception.



Jamestown



# Germany and Austria

This was a year of broadening the Sky offer in Germany and Austria to appeal to a wider range of customers.

5m  
customers

9%  
revenue growth

8.8m  
products

Sky in Germany and Austria has successfully developed a broader content offering including the launch of Sky 1, the Sky Arts channel and an eagerly anticipated slate of Sky original drama, including *Babylon Berlin*, coming later this year. We maintained our profitability for the second year in succession while preserving our investment in content and innovation, which is driving our appeal to an increasingly broad customer base.

For the first time, we achieved an operating profit in the region by the end of Q3. Revenue increased by 9% to £1,858 million<sup>1</sup>, driven by strong growth in customers and our highest ever level of advertising revenues. Despite further investment in programming and marketing, EBITDA increased to £142 million<sup>1</sup> up 54%, and operating profit increased by 900% to £40 million<sup>1</sup>.

## Innovation

In a big year for product launches, our strategic deployment of innovative new technology has increased Sky's reach and appeal.

The introduction of new products are opening up new opportunities for us. For example, the Sky+ Pro, which is now in over 460,000 homes, is the most advanced set-top box launched in the region. Our leadership in innovation also received global recognition, with the Sky+ Pro box receiving a Red Dot Design Award for outstanding product design.

As the leader in on demand, we have increased the appeal of Sky to important new audiences – particularly females and young, urban professionals. Customers are increasingly seeking to access our content whenever and however they want, Sky Store launched in June and Sky Ticket, for which the sale of passes doubled during the second half of the year, are proving that customers want great content and are willing to pay for it.



MasterChef

<sup>1</sup> This is an adjusted measure and a reconciliation between statutory and adjusted measures can be found on page 141.



Handball Champions League

## Content

Our expanding range of content is increasing our appeal to a broader audience than ever. With the securing and renewal of major long-term rights deals, and our slate of original content, Sky in Germany and Austria is now recognised for more than just sport.

**In entertainment**, we launched Sky 1 in November, which became our most watched entertainment channel after just seven months, attracting 2.73 million viewers. Coupled with our content targeted toward other customer segments, such as Sky Arts, our content mix is also serving to attract new talent and shows to Sky in Germany and Austria.

The huge popularity of our established shows continues to drive on-screen success. The sixth series of *Game of Thrones* was the most popular series on Sky Atlantic HD. And new shows, such as the first series of *Westworld*, achieved record audiences, with 4.8 million viewers, reaching 70% of the audience of *Game of Thrones*.

We also continued to invest in highly popular original shows. The first season of our local version of *MasterChef* drew a record 2.37 million views, becoming one of the most popular shows on Sky 1. Sky Originals are increasing in scale, enabling us to offer differentiated content in terms of range, quality and exclusivity. This year saw production finish on *Babylon Berlin*, one of the most ambitious non-English language series ever made. The crime drama, produced in partnership with ADR, Germany's biggest public broadcaster, will air in Germany in October. Along with this, viewers can look forward to *Das Boot*, *Acht Tage* and the second series of the local production of *A League of Their Own*.

**In movies**, we launched the Sky Cinema Family channel in September, offering movies for the whole family, from classics to recently released blockbusters. In addition to linear viewing, the channel is also accessible on demand, through Sky Go and Sky On Demand and is achieving record viewing figures across all platforms. Additionally, our special programming formats continued to draw viewers with our pop-up channels like Sky Cinema Bourne HD and Sky Cinema Star Wars, reaching millions of customers.

**In sport**, we secured rights to the UEFA Champions League across all distribution channels with DAZN as sub-licensee. This is the first time the competition will be broadcast exclusively on pay TV and with the Bundesliga, the EHF Champions League, Formula 1, the handball Bundesliga, ATP Tennis and the European and US PGA tours, our customers are assured of the world's best in sports. Added to this, Sky Sports News HD launched on free-to-air TV in December and our new sports portal, skysport.de launched at the beginning of July.



Sky Foundation

## Customers

As in all our territories, we know that our success comes from giving viewers the best experience. Sky continues to invest in market-leading platforms, like Sky Go which allows access to Sky's content whenever and wherever they choose. Sky Ticket was also rolled out to even more devices and platforms which, in addition to the launch of Sky Store in Germany, ensures the changing viewing habits of our customers are met.

Our customers are also benefiting from Sky sharing best practice across the Group. By building on the models in the UK and Italy, Sky's customers in Germany and Austria are seeing their calls to our contact centres handled with ever-increasing speed.

## Bigger Picture

Having carefully considered product recycling in the design of our new set-top box, we've refurbished and returned 91% of all set top boxes to market. We launched Sky Ocean Rescue with the release of *Dead Sea – Art for the Seas* on Sky Arts, where artists explored the theme of ocean pollution.

More than 3,731 young people took part in opportunities through our Sky Foundation, joining year-round sports programmes including swimming, football and various other sports. One of these programmes is SportZeit, which brings together senior citizen volunteers with children from broad social backgrounds. After a successful test phase at eight schools across Germany this year we began to roll out SportZeit in 20 more schools.



# Italy

We have successfully grown our customer base in Italy and operating profits have reached their highest level for five years by improving the TV experience for customers, broadening our revenue growth and leveraging our multi-platform strategy.

4.8m

customers

4%

revenue growth

9m

products

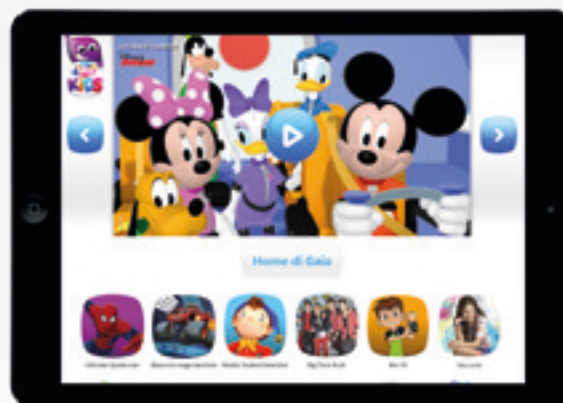
With an emphasis on investing for the future, our focus was very much on reinforcing our offer in Italy. In a rapidly changing environment, with a solid reputation for the quality and choice of content and technology, our customers showed a growing loyalty to the business.

We recorded our fastest rate of revenue growth for eight years with operating profits of £136 million<sup>1</sup>. Revenues increased by 4% to £2,458 million<sup>1</sup>, reflecting our larger customer base and solid growth in advertising revenues, partly due to a strong performance of our free-to-air channels (FTA). EBITDA increased to £254 million<sup>1</sup>, an increase of 20%.

## Innovation

This year saw us extend our customer reach with a number of new product launches in Italy, many of which are unique in the territory. With the launch of Sky Go Extra, we were the first in Italy to offer the ability to download and play a wide range of movies, shows and TV series to watch wherever and whenever customers want. Since its launch in Q2, Sky Go Extra has attracted 400,000 customers.

We also launched a new EPG homepage on the My Sky set-top box, making it easier for our customers to find the shows they love. And with the addition of HD content to the Sky On Demand service, which saw a 21% growth in use this year, our customers in Italy have been able to get even more value from their relationship with Sky.



Sky Kids App



The Young Pope

<sup>1</sup> This is an adjusted measure and a reconciliation between statutory and adjusted measures can be found on page 141.





Gianluca Viali and Diletta Leotta for Sky Extra

We launched Sky Kids App, offering children the widest range of TV programmes, featuring thousands of episodes of the most popular shows. To create the best possible experience, hundreds of children and their parents were involved in its development, resulting in an app that kids love, supported by safety features that parents need.

The continued evolution of our digital platforms this year has seen Sky Sports become the second most popular sports website in the country, with the new Sky Sports app reaching 966,000 downloads since launch in Q1. NOW TV also extended its reach, landing on smartphones and media streaming devices, offering HD and a mobile only proposition targeting younger customers.

## Content

We have had an excellent year on screen in Italy. 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 offer.

**In entertainment,** Sky's original productions are now a major exporter of Italian culture and creativity. *Gomorra*, with its third series in production, has been sold to 190 countries, with the political drama series *1992* and its sequel, *1993*, which aired this year, now also showing in over 100 countries.

The tenth series of the *X Factor* generated its highest-ever viewing figures and *MasterChef* achieved average audiences exceeding 2.5 million for each episode. Also setting record viewing figures, our critically acclaimed Sky Original drama, *The Young Pope*, became our most successful first series in Italy, with average audiences of 1.4 million.

**In movies,** we relaunched Sky Cinema in November with a new premiere available every day, which has driven an increase in viewing of 2% year on year. We have deepened our relationships with domestic producers through Vision Distribution, a company set up with five of Italy's top independent producers and along with the partnerships we enjoy with the major Hollywood studios, our customers have access to an unrivalled library of movies.

**In sport,** we continued to generate record motorsports viewing figures, with F1 and the MotoGP series proving even more popular than ever. This further enhanced Sky's position as a leading sports service in Italy and sits alongside NBA basketball, both men's and women's Eurobasket championships and the recently won rights to the UEFA Europa League and UEFA Champions League on offer to our customers.



NBA Finals

## Customers

We want our customers to have the very best experience with Sky and we continued to improve the quality of our service, offering our customers more flexibility in how they can interact with us. We now receive over 820,000 visits per week to our online help and account management sites and this has led to a 5.4% reduction in calls year on year. Alongside this, our customers in Italy were the first to benefit from rewards for their loyalty, and subscribers to the loyalty programme now exceed two million.

## Bigger Picture

Our new building in Milan has been awarded the Leadership in Energy and Environmental Design (LEED) Gold standard. As part of this, we invested in on-site renewables including a combined cooling, heating and power generation system which is a highly efficient way of producing electricity and heat simultaneously.

Sky Academy Studios, which teaches young people to make a news programme, launched in the autumn and welcomed its first 5,500 students. Young people have had fantastic opportunities to interact with inspirational Sky Academy Ambassadors including footballer Alessandro Del Piero, along with the hosts of popular programmes including *MasterChef* and *X Factor*. We have also continued our focus on media literacy for young people, piloting a successful new project called *Ultima Ora* with our news channel Sky TG24.

# Financial review



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

**We have achieved our fifth consecutive year of revenue growth at or above 5%, and delivered a good set of results in an investment year.**

## Group financial performance

Unless otherwise stated, all numbers are presented on an adjusted basis for the year ended 30 June 2017. For comparative amounts in the prior year down to operating profit, numbers are translated at a constant currency rate of €1.16:£1 being the average exchange rate prevailing in the twelve months to 30 June 2017, while revenue also excludes the benefit from the 53rd week in the prior year.

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 7 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 on page 141.

## Revenue

Group revenues grew by more than £1 billion to £12,916 million (2016: £11,791 million at actual exchange rates) with growth in each territory and in each category (growth of £599 million excluding currency impact). UK and Ireland revenue was up 4%, or £345 million, to £8,600 million (2016: £8,255 million) driven by a higher customer base, increased product take-up including Sky Fibre, Sky Q and Sky Mobile and the impact of pricing taken in the year. This was despite weakness in the UK advertising market which we estimate was down 4% for the year as a whole, including a peak of 8% lower in the third quarter. Revenue in Germany grew 9%, or £150 million, to £1,858 million (2016: £1,708 million) behind good customer and product growth and a strong increase in advertising. In Italy, revenue increased by 4%, or £104 million, to £2,458 million (2016: £2,354 million) reflecting higher average customers, more product penetration and increased advertising from our free-to-air channels and On Demand content.

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 5%, significantly impacted by the one-time step up in the new three year Premier League contract as well as costs incurred to launch Sky Mobile and the costs of rolling out Sky Q and Sky+ Pro to customers in the UK and Germany. This was partially offset by continued excellent progress in operating efficiency.

We continue to invest on screen for customers, with programming costs up by £698 million. This includes the £629 million increase in the new Premier League deal and seasonal sports events such as the biennial Ryder Cup which we exclusively broadcast in each market and the quadrennial British and Irish Lions tour in the UK. In addition, we continued to invest more in Entertainment content with our best ever year of Sky Originals combined with a greater volume of acquired series from providers such as HBO and Showtime.

£m	12 months to 30 Jun 17	12 months to 30 Jun 16
		Constant currency
<b>Adjusted Results</b>		
Revenue	12,916	12,317
EBITDA	2,139	2,214
Operating Profit	1,468	1,565
		Actual exchange rates
<b>Statutory Results</b>		
Revenue	12,916	11,965
Operating Profit	964	977
<b>EPS (Basic)</b>		
Adjusted (pence)	61.4	63.1
Statutory (pence)	40.6	39.0

Direct network costs increased by 3%, below the rate of home communications revenue growth, as we continued to grow the volume of broadband customers and increased fibre penetration to 27% of customer households.

Sales, general and administrative costs were down by £209 million or 5%, whilst reducing by 300 basis points as a percentage of revenue. This reflects the strong progress we have made driving operating efficiency through the business. In the year, we reduced cost through increased set-top box reliability and repair, deflected 26 million calls to digital channels, reduced more than 10% of non-customer facing roles in the UK as well as the benefit of capitalising rather than fully expensing Sky Q box costs.

We achieved our original run rate synergy target of £200 million six months early in December 2016. Since then we have continued to make good progress towards our £400 million synergy target by the end of 2020, completing a number of projects during the year.

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.



British & Irish Lions Tour 2017





Adam Boulton presents Sky News' Election programme

### Profit and earnings

Operating profit was down 6% to £1,468 million (2016: £1,565 million including a benefit from a 53rd week). This was as a result of the increase in Premier League costs and investment in Sky Mobile (£51 million), though substantially offset by our strong revenue growth and excellent progress in operating efficiency. Profits in Italy, and Germany and Austria were up £79 million (+139%) and £36 million (+900%) respectively.

Adjusting for depreciation and amortisation of £671 million, EBITDA was £2,139 million (2016: £2,214 million).

Tax was £54 million lower at £215 million (2016: £269 million), at an effective tax rate of 17% (2016: 20%) as we benefited from a reduction in the corporation tax rate in the UK to 19% and from a lower tax rate on the profits from our patented technology. We expect the effective tax rate for the current fiscal year to be 18% subject to a number of factors.

Profit after tax was £1,050 million (2016: £1,077 million), resulting in earnings per share of 61.4 pence (2016: 63.1 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 1,710 million (2016: 1,707 million).

### Statutory revenue, profit and adjusting items

Statutory revenue for the year of £12,916 million was up 8% from prior year (2016: £11,965 million), which included the benefit of a 53rd week in the prior year.

Statutory operating profit for the year of £964 million (2016: £977 million) is after the deduction of operating expenses of £504 million (2016: £581 million) principally comprising the ongoing amortisation of acquired intangibles of £258 million (2016: £343 million), the costs of integrating Sky Italia and Sky Deutschland, the costs of corporate efficiency and restructuring programmes, as well as share-based payments and advisory costs associated with the 21st Century Fox offer.

### Net debt and financial position

Net debt as at 30 June 2017 was £6.2 billion (30 June 2016: £6.2 billion), held flat despite adverse non-cash movements of £379 million predominantly on the retranslation of Euro-denominated debt into sterling at an exchange rate of €1.14 (30 June 2016: €1.20). Our net debt to EBITDA ratio remains flat at 2.9 times.

The Group continues to maintain a strong financial position and has ample headroom to its financial covenants, including excellent liquidity with cash of £2.5 billion as at 30 June 2017, and access to a £1 billion Revolving Credit Facility which remained wholly undrawn throughout the period. The Group expects to redeem from existing cash resources bonds falling due both in October 2017 (£400 million) and February 2018 (£387 million) and thereafter we have a well spread portfolio of debt maturities, with an average maturity of six years.

	As at 1 July 2016 £m	Cash movements £m	Non-cash movements £m	As at 30 June 2017 £m
Current borrowings	31	(23)	966	974
Non-current borrowings	8,901	-	(694)	8,207
Borrowings-related derivative financial instruments	(577)	-	107	(470)
<b>Gross debt</b>	<b>8,355</b>	<b>(23)</b>	<b>379</b>	<b>8,711</b>
Cash and cash equivalents	(2,137)	(63)	-	(2,200)
Short-term deposits	-	(300)	-	(300)
<b>Net debt</b>	<b>6,218</b>	<b>(386)</b>	<b>379</b>	<b>6,211</b>

## Balance sheet

During the year, total assets increased by £1,028 million to £18,438 million at 30 June 2017.

Non-current assets increased by £396 million to £13,104 million, primarily due to an increase of £217 million in goodwill due to foreign exchange movements on Euro-denominated balances and an increase of £496 million in intangible assets and property, plant and equipment primarily due to continued capital investment, offset by a decrease of £379 million in derivative financial assets largely due to the reset of the USD hedge book in the UK.

Current assets increased by £632 million to £5,334 million at 30 June 2017, principally due to a £363 million increase in cash and cash equivalents, a £126 million increase in trade and other receivables and a £123 million increase in inventories.

Total liabilities increased by £622 million to £14,591 million at 30 June 2017.

Current liabilities increased by £1,224 million to £5,550 million, primarily due to a £943 million increase in current borrowings following the reclassification of non-current borrowings in line with bond maturities and a £401 million increase in trade and other payables as a result of the timing of the year end close.

Non-current liabilities decreased by £602 million to £9,041 million, principally due to a £694 million decrease in the Group's non-current borrowings following the movement to current borrowings in the year, offset by non-cash movements on retranslation of Euro- and US Dollar-denominated debt into sterling.

## Distributions to Shareholders

On 15 December 2016, the Board of 21st Century Fox and the Independent Committee of the Board of Sky announced that they had reached agreement on the terms of a recommended pre-conditional cash offer by 21st Century Fox for the fully diluted share capital of Sky which 21st Century Fox and its affiliates do not already own (the 'Offer' or the '21st Century Fox Offer'). The Offer, which is intended to be effected by a scheme of arrangement (the 'Scheme'), is subject to the satisfaction or waiver of certain pre-conditions, principally being regulatory clearances.

Review of the Offer on public interest grounds by the UK Secretary of State for Digital, Culture, Media and Sport is ongoing. Regulatory clearances from all other relevant authorities have now been received.

Under the terms of the Offer, Sky has agreed that it will not pay any dividends during the calendar year 2017. However, should the Scheme not become effective on or before 31 December 2017, shareholders will be entitled to receive a special dividend of 10 pence per Sky share, payable in 2018.

For full disclosure on the impact of the Offer on dividends, please refer to the Recommended Cash Offer announcement released on 15 December 2016 (found at [www.skygroup.sky/corporate/investors](http://www.skygroup.sky/corporate/investors)).




Westworld

# Principal risks and uncertainties

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

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

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

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

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

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

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

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

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

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

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

Description of risk	Mitigation
<p><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. 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> <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> </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>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, which create volatility in the Group's results to the extent that they are not effectively hedged.</p> <p>Any increase in the financial leverage of the Group may limit the Group's financial flexibility.</p> <p>The Group may also be affected adversely by liquidity and counterparty risks.</p>	<p>The Group's finance teams are embedded within the business to provide support to management and to ensure accurate financial reporting and tracking of our business performance. Reporting on financial performance is provided on a monthly basis to senior management and the Board.</p> <p>The Group continually invests in the improvement of its systems and processes in order to ensure sound financial management and reporting.</p> <p>The Group has a formal Treasury Policy which is reviewed and approved by the Audit Committee on an annual basis. In addition, the Group COO and CFO monitors the Treasury Policy on an ongoing basis to ensure its continuing appropriateness. The Treasury Policy covers all areas of treasury risk including foreign exchange, interest rate, counterparty and liquidity.</p> <p>The Group manages treasury risk by minimising risk to capital and uses appropriate hedging instruments and strategies to provide protection against adverse foreign exchange and interest rate movements.</p> <p>Trading transactional currency risk is hedged up to five years in advance. Interest rate risk protection is in place using interest rate swaps and an appropriate currency mix of debt is maintained using cross-currency swaps.</p> <p>Cash investment is made in line with the Treasury Policy which sets limits on deposits based on counterparty credit ratings. No more than 10% of the Group's cash deposits are held with a single bank counterparty, with the exception of overnight deposits which are invested in a spread of AAAF-rated liquidity funds.</p> <p>The Group maintains headroom within our banking covenants to allow for unforeseen adverse impacts on our leverage ratio as a result of either economic decline or extreme currency movements.</p> <p>The Group maintains strong liquidity as part of its core strategy, with high cash balances and a £1 billion fully undrawn revolving credit facility.</p> <p>The Group manages its tax risk by ensuring that risks are identified and understood at an early stage and that effective compliance and reporting processes are in place.</p> <p>The Group continues to maintain an open and proactive relationship with all relevant tax authorities, including HM Revenue &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

### Intellectual property protection:

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

## Mitigation

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

### People:

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

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

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

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

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

## Viability statement

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

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

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

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

## Going concern

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

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

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

# 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 investigation was opened into 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, 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 19 November 2015, Ofcom announced its decision to remove wholesale must-offer obligations which Ofcom had imposed on the Group in March 2010 for the channels Sky Sports 1, Sky Sports 2, Sky Sports 1 HD and Sky Sports 2 HD (the 'WMO Obligations').

On 19 January 2016, BT filed an appeal against Ofcom's decision to remove the WMO condition with the Competition Appeal Tribunal (the 'CAT').

On 21 December 2016, the CAT dismissed BT's appeal. On 11 January 2017, BT applied to the CAT for permission to appeal against the CAT's judgment to the Court of Appeal. Having been refused permission to appeal by the CAT, on 16 February 2017 BT sought permission to appeal from the Court of Appeal. On 20 June 2017, following a request from BT that it do so, the Court of Appeal dismissed BT's application for permission to appeal, marking the end of this litigation.

## 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 decided to close its investigation on 10 August 2016 for reasons of administrative priority.

## 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. In September 2016, Ofcom notified Sky of its provisional determination that there are reasonable grounds for believing that Sky contravened General Condition 9.3 between 1 May 2015 and 31 July 2015. Sky made representations in response to Ofcom's provisional determination. 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. On 23 December 2016, the Italian Administrative Court (TAR Lazio), upheld Sky Italia's appeal and annulled the ICA decision in its entirety. On 23 March 2017 the ICA filed an appeal against the TAR decision before the Consiglio di Stato and the case is still pending.



## Secretary of State review of the 21st Century Fox Offer on public interest grounds

The 21st Century Fox Offer is subject to the satisfaction or waiver of certain pre-conditions, principally being regulatory clearances. On 16 March 2017, the Secretary of State for Digital, Culture, Media and Sport (the 'Secretary of State') issued a European Intervention Notice, confirming her intervention in the 21st Century Fox Offer on two public interest grounds – media plurality and commitment to broadcasting standards. Following a detailed review process, on 20 June 2017, Ofcom and the Competition and Markets Authority (the 'CMA') provided reports to the Secretary of State on the media public interest grounds and jurisdiction, respectively. Separately, Ofcom conducted a review of whether Sky would remain a fit and proper holder of UK broadcast licences following the completion of the 21st Century Fox Offer and concluded that it would. On 29 June 2017, the Secretary of State announced that she is minded to refer the Offer to the CMA for an in-depth Phase II review on the grounds of media plurality only. The Secretary of State opened a consultation process on this decision and her consideration of representations received remains ongoing. Her final decision on referral is expected in the coming weeks. Regulatory clearances for the 21st Century Fox Offer from all other relevant authorities have now been received.

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

**Jeremy Darroch**  
Group Chief Executive Officer  
26 July 2017

## 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, On Demand, NOW TV, Sky Go, Sky Go Extra, Sky<sup>+</sup>HD, Sky Q, Sky Store, Sky Online, IPTV, Sky Mobile, Sky Ticket, 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

A photograph of a rocky shoreline with a body of water and mountains in the background. The word 'Governance' is written vertically in white text on the left side of the image. The scene is captured in a cool, blue-toned light, possibly during dawn or dusk. The foreground is dominated by large, jagged grey rocks. In the middle ground, a calm body of water reflects the light. The background features a range of mountains with patches of snow or light-colored rock, under a pale sky. A small, warm light source is visible on the right side of the middle ground.







# Board of Directors

## Key:

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



**James Murdoch** (44)  
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 Tesla, Inc., Yankee Global Enterprises, Vice Media, and a member of the Board of Trustees of the Ghetto Film School.



**Jeremy Darroch** (55)  
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 Chairman of the Audit Committee, a member of the Nomination Committee and from 1 July 2017 as Senior Independent Director. He is a Business Member of the National Centre for Universities and Business.

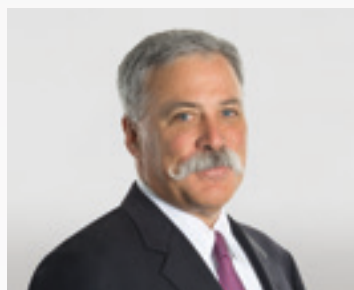


**Andrew Griffith** (46)  
Group Chief Operating Officer and Chief Financial Officer

**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 since April 2017 has been serving as Interim Chairman. He also Chairs the Audit Committee and is a member of the Remuneration and Nomination Committees. In addition he is a Trustee of Riverside Studios in West London, a registered charity.



**Chase Carey** (63)  
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 is Chairman and Chief Executive of the Formula 1 Group and Vice Chairman of 21st Century Fox. He was President, Chief Operating Officer and Deputy Chairman of 21st Century Fox from 2009 to 2015 and Executive Vice Chairman from July 2015 to July 2016.



**Tracy Clarke** (50)  
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 YOU; 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.



**Martin Gilbert** (62)  
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. Martin also serves as a Non-Executive Director of Glencore plc and as Senior Governor of the University of Aberdeen.





**Adine Grate** (56)  
Independent Non-Executive  
Director



**Appointed:** July 2013

**Skills and experience:** Adine brings a wealth of executive, finance and investment management and TMT experience having operated at the top tiers of Nordic-based international business for the past two decades. Formerly Executive Vice President and Executive Board Member of Investor AB, owner of a number of Nordic-based international companies, and Chairperson of the NASDAQ OMX Swedish Listing Committee.

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



**John Nallen** (60)  
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** (49)  
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 of Lazard, France and Vice Chairman of Lazard (Europe). He is also the Global Head of 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** (62)  
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 Chairman of Inmarsat plc, a global mobile satellite communications provider.

**External Appointments:** In addition to his role as 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. He also previously served as Chief Executive Officer of Sprint PCS (NYSE) and NTL Ltd and held the roles of Chairman of Xyratex (Nasdaq) and Telenet, and Deputy Chairman of O2 plc. Andy is also an Executive in Residence for Warburg Pincus.



**Katrin Wehr-Seiter** (47)  
Independent Non-Executive Director

**Appointed:** October 2016

**Skills and experience:** Katrin is an experienced investment management and finance professional having worked in the private equity industry for more than 16 years. She brings significant knowledge of the European media, communications and technology sector. Prior to joining BIP Investment Partners in 2012, she served as a Principal of global investment firm Permira and Senior Advisor to international private equity firms and corporations, having started her career at Siemens. Katrin was also an independent director of Sky Deutschland AG from 2010 to 2015, prior to Sky taking full ownership of the company.

**External Appointments:** Katrin is Managing Director of BIP Investment Partners SA. She is a director of SES SA and serves on their audit and risk committee. Katrin is also a director of several non-listed corporations including Lifebrain AG.

# 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, Dave Lewis stepped down from the Board and Katrin Wehr-Seiter was appointed as a Non-Executive Director. I would like to thank Dave for his significant contribution since joining the Board in 2012 and welcome Katrin as a member of the Board.

This year we undertook an internal Board evaluation and Andy Sukawaty, our Senior Independent Director, met with all the Directors and discussed a range of topics. 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 findings of the evaluation are discussed on page 42.

The Board has established arrangements to evaluate whether the information in the Annual Report is fair, balanced and understandable. Further details of these arrangements can be found on page 45. As a result 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.

In December 2016, 21st Century Fox – where I am Chief Executive Officer – approached the Deputy Chairman of Sky with an initial proposal to acquire the shares in the Company that it does not already own. Following this approach, specific governance arrangements were put in place to protect the interests of all shareholders. Those arrangements are described further in this report.

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. Andy Sukawaty, as the Senior Independent Director, has engaged with shareholders on governance issues. As described on page 43, Martin Gilbert has engaged with shareholders on issues in relation to the 21st Century Fox Offer 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 2017. This section of the Annual Report along with the Directors' remuneration report on pages 50 to 69, the Directors' report and other statutory disclosures on pages 70 to 75 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).

## 21st Century Fox Offer

Following the approach by 21st Century Fox on 7 December 2016 with an initial proposal to acquire the fully diluted share capital of the Company that it does not already own, the Board appointed a committee comprising the Independent Non-Executive Directors and Executive Directors (the 'Independent Committee'), all of whom the Board considers to be free from conflicts of interest with regard to the offer. On 15 December 2016, 21st Century Fox announced that it had reached agreement with the Independent Committee on the terms of a recommended pre-conditional cash offer for the fully diluted share capital of the Company which it did not already own (the 'Offer' or the '21st Century Fox Offer'). It is intended that the Offer will be implemented by means of a scheme of arrangement (the 'Scheme').

The Independent Committee is chaired by Martin Gilbert and has the authority to exercise all powers of the Board in relation to the 21st Century Fox Offer. The Independent Committee, whose members constitute a majority of the Board, are exercising their rights and powers to manage the governance of the Board during this period in the best interests of all shareholders. This includes taking such steps as they consider appropriate to regulate the attendance of Directors connected with 21st Century Fox at meetings of the Board and information they receive relating to the Company that is deemed relevant to the Offer. This ensures that all matters relevant to the Offer (including matters relating to the future prospects or strategy of the Company) are dealt with by the Independent Committee. These arrangements will continue for the duration of the Offer or until the successful completion of any transaction (the 'Offer Period'). The Independent Committee met on nine occasions between 7 December 2016 and 30 June 2017.

## 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 Director 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 significant commitments of the Chairman are detailed in his biography on page 36.

### 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. The Deputy Chairman in particular plays a key role in situations where the Chairman has a conflict of interest, such as the current 21st Century Fox Offer. During the Offer Period he is acting as Chairman of the Independent Committee and has held a series of meetings with the Company's largest shareholders.

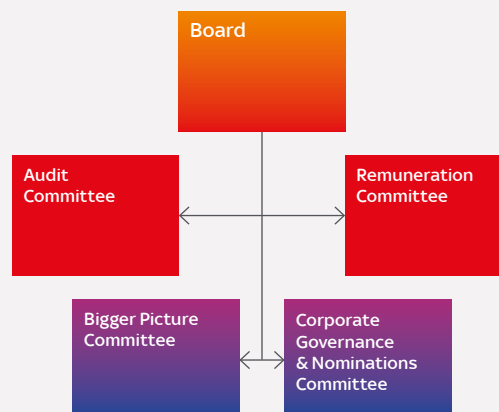
### Senior Independent Non-Executive Director

Andy Sukawaty is responsible for providing support to the Chairman and provides an independent point of contact for shareholders, particularly if they have concerns which have not been resolved through the normal channels or for which such contact is inappropriate. He also plays a key role in ensuring the Board have a balanced understanding of the issues and concerns of major shareholders.

### Non-Executive Directors

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

## Board and Committee 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 assist 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.



## Corporate governance report – continued

### 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.

The members of the Independent Committee have taken steps to ensure that 21st Century Fox affiliated Directors do not receive information relating to the Company that is deemed relevant to the Offer during the Offer Period. As described on page 38, the Independent Committee has the authority to exercise all powers of the Board in relation to the Offer.

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. These matters are contained within the Company's 'Schedule of Matters Reserved to the Board' which can be found at [www.skygroup.sky/corporate](http://www.skygroup.sky/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 [www.skygroup.sky/corporate](http://www.skygroup.sky/corporate).

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 44 to 47.

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 50 to 69.

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 47 and 48.

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 49.

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	6	6	3	1
<b>Executive Directors</b>					
Jeremy Darroch, Group CEO	6/6				
Andrew Griffith, Group COO & CFO	6/6				
<b>Non-Executive Directors</b>					
Chase Carey <sup>3</sup>	5/5				
Tracy Clarke	6/6		6/6		1/1
Martin Gilbert <sup>4</sup>	5/6	6/6		2/3	
Adine Grate	6/6	6/6	6/6		
Dave Lewis <sup>1</sup>	2/2	2/2			1/1
James Murdoch <sup>3</sup>	5/5			3/3	1/1
John Nallen <sup>3</sup>	5/5				
Matthieu Pigasse <sup>4</sup>	5/6	4/6		2/3	
Andy Sukawaty	6/6		6/6	3/3	
Katrin Wehr-Seiter <sup>2</sup>	4/4				

1 Dave Lewis stepped down from the Board on 13 October 2016.

2 Katrin Wehr-Seiter joined the Board on 13 October 2016.

3 The 21st Century Fox affiliated directors did not participate in the Board meeting which established the Independent Committee in relation to the 21st Century Fox Offer and the number of meetings they were eligible to attend has been reduced accordingly.

4 Directors are encouraged to attend 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.

## Effectiveness

### Board composition and independence

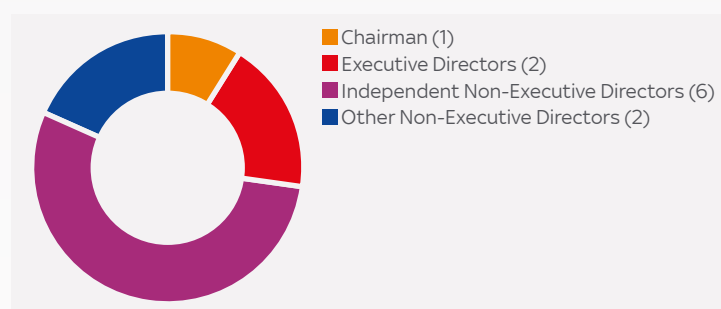
The Board currently comprises 11 Directors, made up of two Executive Directors and nine Non-Executive Directors. A majority of six of the Board of Directors are determined to be independent by the Board in accordance with provision B.1.2 of the Code. Further details are set out in the biographies of each of the Directors which 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 makes 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 to 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

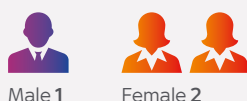
The Corporate Governance & Nominations Committee keeps the Board's balance of skills, knowledge, experience and the length of service of individuals under constant review. In respect of succession planning and supplementing the skill set of the Board, there is an established procedure for the appointment 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 47 and 48.

## Corporate governance report – continued

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 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 currently comprises eight men and three women (27% female representation on the Board). As required by company legislation, a table on page 71 illustrates gender diversity across the Group as well as at Board level.

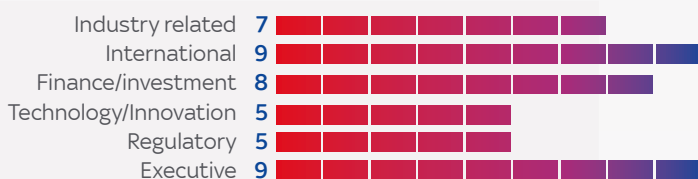
### Diversity ratio of Directors appointed in past four years



### 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.71., all continuing Executive and Non-Executive Directors will retire and offer themselves for reappointment at the Company's 2017 AGM.

### 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. Jeremy serves as Chairman of the Audit Committee, a member of the Nomination Committee and, from 1 July 2017, as Senior Independent Director.

Andrew Griffith was appointed as Senior Independent Non-Executive Director of Just Eat plc on 12 March 2014 and since April 2017 has been serving as Interim Chairman. He also Chairs 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 58.

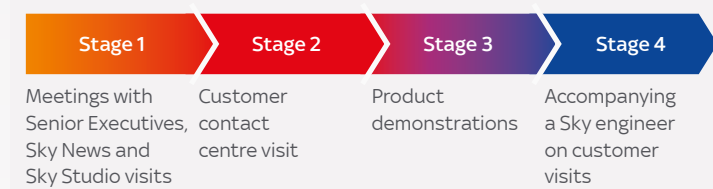
### Time commitment

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 the Code, and following the external Board evaluation carried out by Alice Perkins of JCA Group in 2016, an internal Board and Committee evaluation was carried out during the year facilitated by Andy Sukawaty, the Senior Independent Director. The findings of the evaluation were considered by the Corporate Governance & Nominations Committee and reported to the Board. The overall conclusion was that individual Board members are satisfied that the Board and its Committees work well and operate effectively, in an environment where there is constructive challenge from the Non-Executive Directors. The Directors were satisfied with the current mix of skills and experience and the size of the Board. The Directors noted that appropriate rigour was applied to related party transactions and the 21st Century Fox Offer was a solid example of the Company's governance procedures working well in practice. The allocation of Board and Committee discussion topics would be reviewed and some topics currently discussed in detail at committee level may be brought to the whole Board from time to time. The quality of information presented to the Board was considered to be of a high standard and distributed on a timely basis.

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 2017/18 financial year, it is likely another 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 144 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 [www.skygroup.sky/corporate](http://www.skygroup.sky/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 announcements; 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.

On 20 October 2016 the Company held an Investor Day at its Osterley headquarters at which the Company's shareholders were given details on a wide range of topics including its strategic priorities, capabilities, position in each market, content strategy, cost efficiency and future growth plans, all of which was also made available on [www.skygroup.sky/corporate](http://www.skygroup.sky/corporate).

Prior to the 21st Century Fox Offer, Tracy Clarke, Chairman of the Remuneration Committee, engaged with certain major shareholders to solicit their views on the Remuneration Policy in advance of any new policy being put to the 2017 AGM. In light of the 21st Century Fox Offer, the Remuneration Committee decided to place the Policy review on hold. Further details are included in the Chairman of the Remuneration Committee's letter, which can be found on page 50.

Since the 21st Century Fox Offer, Martin Gilbert has held a series of meetings with major shareholders to discuss the background to, and reasons for, the Independent Committee's recommendation.

### 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 2016 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 and has remained focused on this role despite the 21st Century Fox Offer. 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, technology and health and safety, as well as regular presentations on business performance.

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 information on how the Committee approached this is detailed in this report.

There were six meetings during the year and after each Committee meeting I provided an oral update to the Board on the key issues discussed during our meetings. I have also met separately with the external audit partner and key management on a number of occasions during the year.

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 (resigned 13 October 2016)

Matthieu Pigasse

The Committee members have considerable financial and business experience and the Board has determined that the membership as a whole has sufficient recent and relevant sector and financial experience to discharge its responsibilities and that at least one member has competence in accounting or auditing in line with the Code. The Committee comprises three Independent Non-Executive Directors, in compliance with the Code and DTR 7.

#### 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 2016 final dividend
- Liquidity, going concern and viability statement review
- Annual reporting due diligence procedures and corporate governance updates
- 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 (with the exception of the Offer) 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
- Deep dive update on the Technology function
- Monitoring and reviewing the effectiveness of the Group's internal audit function and controls
- Review and approval of updated policies relating to whistleblowing and anti-bribery and corruption
- 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 94 to 95 with particular focus on the following:

#### Retail subscription revenue:

The majority of the Group's revenues derive from retail subscription packages, including hardware and installation services, 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 quarterly 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 assets and property, plant and equipment:

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 2017 and up to the date on which the financial statements were approved. This review includes all material controls and 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 2017 that has materially affected, or is reasonably likely to materially affect, the Group's internal control over financial reporting.

#### 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 reviews the Group Risk Register typically 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 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.

#### Effectiveness of internal audit process

The Committee also reviews the effectiveness of the internal audit function on an annual basis and this review has been carried out for the year ended 30 June 2017.

#### 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.

The Committee also reviewed the disclosures regarding the Company's alternative performance measures (APMs) having regard, in particular, to the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority in October 2015.

## Corporate governance report – continued

### Viability statement

The Directors are required 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 could 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 2017, the Committee reviewed audit independence and the 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 continued to substantially reduce the level 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 2018. Non-audit fees are expected to decline very significantly over the four-year period, from a peak of £15.8 million in 2014/15 (pro-forma basis spend of £19.5 million) to a level below that of the audit fee in 2017/18 (excluding any non-audit fees incurred as a consequence of the 21st Century Fox Offer).

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 4 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.

The policy was reviewed and updated during the year and 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 of non-audit work were deemed to be pre-approved in accordance with the policy:

- Audit of the Sky pension plan
- 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 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 for the 2017/18 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 audit partner rotated off the engagement following the conclusion of the 2014/15 audit and his successor was in place for 2015/16. In turn, the current audit partner (Paul Franek) 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, but it will continue to keep the appropriate timing of a future tender under review.

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 2017.

## Corporate Governance & Nominations Committee

### Chairman's overview



We have had an active year. There have been two Board changes with Dave Lewis stepping down and the appointment of Katrin Wehr-Seiter in October 2016. The appointment process is explained in this report.

I undertook this year's Board Evaluation and reported the findings of the evaluation to the Committee and the Board. The results of the evaluation were very encouraging. The overall conclusion was that individual Board members are satisfied that the Board works well and operates effectively in an environment where there is constructive challenge from the Non-Executive Directors.

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 I reported to the Board on the key issues discussed during the meetings.

The Committee continues to comprise a majority of Independent 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 report – continued

### Corporate Governance & Nominations Committee agenda

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

- Board changes
- Board and Committee composition
- 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. In respect of succession planning and supplementing the skill set of the Board, there is an established procedure for the appointment of new Directors. The Committee will identify the set of skills and experience required and, with the assistance of external search agencies, select individuals to take Board positions on review of their individual merits, regardless of gender, race, religion, age or disability.

At the conclusion of last year's AGM, Dave Lewis stepped down from the Board and Katrin Wehr-Seiter was appointed as a Non-Executive Director. The Board commenced the search for a new Independent Non-Executive Director when Dave Lewis indicated he would step down.

The Committee engaged JCA Group, an external recruitment consultancy, in late July 2016 to help identify possible candidates and run the search process. The coaching arm of JCA Group, which is a separate business from the recruitment consultancy performed the external Board evaluation during the 2015/16 financial year. Other than external recruitment consultancy for the Group, JCA Group has no other connection with the Company.

The Chairman of the Committee briefed the recruitment consultants to ensure they had a thorough understanding of the Company's requirements, including key skills and experience required. The recruitment consultants produced a long list of candidates which was reviewed by the Chairman, Deputy Chairman, Senior Independent Director and the Group Chief Executive Officer. Taking into account the candidates' backgrounds, experience and skill set, and potential areas for strengthening the Board, two candidates were shortlisted and brought forward for interview.

After the interview process was concluded in early October 2016 the Committee met to discuss the two candidates. The Committee agreed that Katrin Wehr-Seiter was the preferred candidate and the Committee then made their recommendation to the Board. The Board noted that Katrin was an experienced financial professional with valuable pan-European media industry experience which would strengthen the Board.

Following Dave Lewis's retirement and Katrin Wehr-Seiter's appointment, there remain 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 and agreed that during the Offer Period the membership of the Committees would remain unchanged.

#### Board evaluation

The approach and findings of this year's internal board evaluation are detailed on page 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 in their respective biographies on pages 36 and 37.

As noted on page 41, 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.

#### Board diversity

The Committee pursues a policy of diversity of skills, experience, nationality and gender in its approach to Board appointments. Since 2011, three female directors have been appointed and the Board currently comprises eight men and three women (27% female representation on the Board).

#### Directors' conflicts

The Committee reviewed the Board's conflicts during the 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 this year. We celebrated the successes of Sky Sports Living for Sport, in which over half a million young people have participated over the 14-year initiative. Sky's commitment to sustainability has been reflected in a number of leading investor indices, including: the Dow Jones Sustainability Index, in which Sky achieved a Silver certification for the first time; Sustainalytics' Global 100 Index; Carbon Disclosure Project's Climate 'A' List and Supply Chain Leadership board. 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. A refreshed strategy launching in the next financial year will make an even greater impact for customers, the environment and for Sky.

There was one Committee meeting during the year and after that meeting I reported to the Board on the key issues discussed. Outside of this meeting the Committee were kept updated on the progress of Bigger Picture activities.

Progress against the Bigger Picture strategy is detailed at [www.skygroup.sky/corporate/bigger-picture](http://www.skygroup.sky/corporate/bigger-picture).

#### James Murdoch

Committee Chairman

#### Composition of the Committee

James Murdoch (Chairman)

Tracy Clarke

Dave Lewis (resigned 13 October 2016)

#### Attendance at Committee meetings

The Group CEO, Group COO & CFO, the Group Corporate Affairs Director, other senior executives 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:

- Progress on responsible business performance
- Progress on initiatives to unlock potential in young people
- Progress to evolve the Bigger Picture with a renewed strategy for 2017/18

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

#### Activities during the year

The Committee oversaw and were updated on a number of developments in relation to the Bigger Picture during the year, including the following activities. The progress being made on expanding and implementing the Group responsible business strategy in Germany, Austria and Italy was noted and the Committee reviewed Sky's progress on responsible sourcing and human rights, including the launch of the Company's first Modern Slavery Statement. Accessibility was a focus, including the launch of subtitling On Demand on Sky Q and Sky+ HD. The Committee also supports the Company's focus on inclusion and noted their ambition to become the industry leader for inclusion, both on screen and behind the scenes. To achieve this Sky has been focused on increasing the representation of BAME (Black, Asian, and minority ethnic) employees and achieving gender parity. A range of initiatives have been put in place, for example supporting women to develop skills in traditionally under-represented areas, with initiatives such as 'Get into Tech'. External recognition for this programme was shared with the Committee, such as inclusion in the Times Top 50 Employers of Women. The Committee noted the importance of putting policies into practice and of target-driven progress.

The Committee is proud of Sky's continued success in supporting young people, with 170,264 young people having taken part in our initiatives during the year. Sky Sports Living for Sport has inspired and built skills in students from around a third of state secondary schools since its launch 14 years ago. Sky Academy Studios in London and Livingston saw 19,344 young people create news reports this year and the Committee welcomed the launch of Sky Academy Studios in Milan which saw over 5,500 young people take part since opening its doors. This year, more than 10% of employees participated in these initiatives.

We welcome the relocation of our long-standing charity partner MAMA Youth, onto Sky's London Campus. Students can benefit from mentoring from Sky employees along with support from Sky Academy Ambassadors such as Anthony Joshua, who took part in filming for MAMA Youth's 'What's Up!' TV programme.

Progress continues to be made in Italy to support young people through Ultima Ora, which links with Sky Italia's 24-hour news channel, and the impact of Artevisione Artes Scholarships.

Sky Foundation in Germany supported 5,738 young people this year, partnering with charities across the country. Sky Foundation brought 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.

The Committee has participated in the evolution of the Bigger Picture strategy, from discussions around the existing programme, which was noted to have a positive social impact with strong reach and awareness, to the need to build on this with ongoing bold, focused initiatives to support the next generation around important issues that Sky's customers care about. The first of these new initiatives, Sky Ocean Rescue, launched in January 2017.

As part of a review of the Bigger Picture reporting, the Committee continued to note the positive economic, social and environmental contribution of Sky and looks forward to the launch of further projects and the opportunities they will bring.

 For more information about Sky's approach and progress during the year, go to [skygroup.sky/corporate/bigger-picture](http://skygroup.sky/corporate/bigger-picture)

# Directors' remuneration report

## Annual statement from the Chairman 2017



### Dear Shareholder

On behalf of the Board I am pleased to present our Directors' Remuneration Report for the year ended 30 June 2017. The Committee paused its ongoing review of the Remuneration Policy following the announcement of the Offer from 21st Century Fox in December 2016, and will present the current policy for approval at the 2017 AGM. As the Offer process is continuing longer than anticipated we will be re-engaging with our shareholders and should the Offer not proceed we will present a new policy for approval at the 2018 AGM. I set out the rationale for this decision below.

### Context and Business Performance

The Committee believes that the current remuneration structure has served the business well and has contributed to sustained long-term business performance. Over the past five years revenue has increased by 29% and our shareholders have seen Earnings Per Share and dividends growth of 25% and 32% respectively.

This has been a year of robust performance against our key drivers of performance:

- Revenue grew by £1 billion, the highest level in the Company's history, to £12,916 million, up 10% or 5% excluding the benefit of currency.<sup>1</sup> This is sector-leading and the fifth consecutive year of growth at or above 5%. Achievement was slightly below stretch target due to headwinds in the UK advertising market and post-Brexit pressure on the consumer environment
- Added almost 700,000 new customers, increasing total customer base to 22.5 million
- 2.7 million new paid-for products, taking our total base to almost 60 million
- Operating profit of £1,483 million<sup>1</sup>, ahead of stretch target and including the uplift in Premier League rights costs, biennial Ryder Cup costs and the costs of launching Sky Mobile in the UK
- Operating cash flow of £1,221 million<sup>1</sup>, ahead of stretch target due to working capital improvements across the Group<sup>1</sup>
- EPS of 62.1p<sup>1</sup> with a growth rate of 6.2% per annum over the past three years

This has also been a strong year of delivery on our growth strategy, with continued good progress against our priorities, expansion into new markets with the successful launch of Sky Mobile in the UK, and the roll out across our European businesses of our NOW TV, Sky AdSmart and Sky Store platforms.

We strengthened our content offering with new Sky Originals, entered a major co-production agreement with HBO, launched key channels including Sky 1 in Germany, and secured renewals with partner channels and exclusive rights to UEFA Champions League matches in Germany and Italy. We also launched Sky+ Pro in Germany, voice search and UHD for Sky Q in the UK, and introduced a new Digital Service for customers, centred on the My Sky App, also in the UK.

Finally we have successfully completed the integration of the three Sky businesses and achieved our £200 million synergy run-rate target six months early.

Taken together it has been a period of significant progress and achievement.

### Pay for performance outcomes

The fundamentals of our existing remuneration policy remain sound and continue to serve our executive directors, senior managers and shareholders well during this period, as they have done over the past eight years. There is a clear focus on linking pay outcomes directly to the achievement of the stretching performance targets which are the key drivers of our performance.

The existing policy has helped to deliver strong returns for our shareholders. Over the past eight years cumulative Total Shareholder Return (TSR) growth was 185% compared to 127% for the FTSE 100. This is a vesting year for our Long Term Incentive Plan and the Co-Investment Plan, and over the performance period 2014–2017 we have seen TSR of 20.2% versus the FTSE 100 at 19.4%. EPS growth of 6.2% per annum over this period is just slightly below the stretch target set for both the LTIP and Co-Investment Plan.

Taking account of this strong performance overall the Committee agreed the following pay outcomes:

- Base salaries for the Group CEO and Group COO & CFO were increased by 2.5% on 1 July 2017, which is in line with increases for our employees.
- In total, the business achieved 95% of its operational stretch targets. However the Committee used its discretion to pay the Executive Directors and other senior leaders no more than 93% of the maximum for their annual bonus for 2017.
- Matching shares under the 2014 Co-Investment Plan vested at 1.3 times out of a maximum opportunity of 1.5, or 87%.
- The Long Term Incentive Plan awards granted in 2014 and 2015 for the performance period 2014–2017 vested at 100% due to outperformance on revenue growth and operating cash flow over the period. Awards only vest every two years, with the previous vesting in 2015. Total remuneration should therefore be considered as a two-year cycle, rather than comparing year on year.

<sup>1</sup> This is an adjusted measure and a reconciliation between statutory and adjusted measures can be found on page 141. Performance is measured on an adjusted basis, using methodology agreed by the Remuneration Committee, which may differ from the adjusted measures presented elsewhere in this report. This is consistent with the relevant metrics throughout the Remuneration report.



## Impact of the 21st Century Fox Offer

### 1. Remuneration Policy Review

In my 2016 statement I committed to undertaking a thorough review of our remuneration policy prior to seeking approval for a new policy at our 2017 AGM. The review progressed through the first half of the year and I was pleased to be able to meet with a number of our major shareholders to understand their views directly.

The 21st Century Fox Offer was announced to shareholders in December 2016 and the Committee decided that, in light of this, the pragmatic approach was to pause the policy review until the outcome became clear. I wrote to our key shareholders to explain that if the Offer were still in progress at the time of the 2017 AGM we would present the existing Remuneration Policy for re-approval, and should the Offer be withdrawn or lapse in sufficient time prior to the 2018 AGM, we would re-engage with our shareholders and submit a new policy for approval at that time. This approach has enabled us to provide a degree of certainty to our executive directors during this period and ensure that they remain focused on the business.

The policy set out in the following pages is therefore unchanged from that approved by shareholders at the 2014 AGM.

### 2. Share awards due to vest in July 2017

The Committee reviewed the impact of the Offer on the existing remuneration structure. It concluded that the relative TSR performance measure which applies to 30% of the LTIP award due to vest in July 2017 would no longer be a fair measure of the Company's performance, due to the distortive impact of the Offer on the share price. The TSR measure was therefore removed and vesting of the awards was based solely on the operational metrics of revenue growth, operating cash flow and average EPS growth.

The Committee considered that these metrics were no more difficult nor easy to satisfy than the TSR conditions were intended to be in the absence of the Offer, and are the most appropriate to ensure that management remains focused on the key operational metrics which continue to drive the business.

### 3. Ongoing Share awards

In light of the ongoing Offer the Committee agreed to continue with the scheduled Year 2 award of the 2016-19 Long Term Incentive Plan and the 2017-2020 Co-Investment Plan awards that would normally be due at the end of July and in August. These awards will vest either at the end of their normal performance period, or will be subject to early vesting conditions should the Offer complete.

## Other decisions made during the year

The Committee reviewed its policy on disclosure of performance targets. It remains of the opinion that early disclosure of targets within two years of the end of the performance period would be commercially sensitive given the highly competitive nature of the market in which the Company operates. To this end, targets are disclosed on page 66 for the 2015 annual bonus and the LTIP vesting for that year.

### Activity in the coming year

The activity for the coming year will be shaped by the outcome of the 21st Century Fox Offer. Should the Offer be withdrawn or lapse in sufficient time prior to the 2018 AGM, the Committee will complete its review of the remuneration policy and will seek the views of our major shareholders prior to putting the new policy to a shareholder vote at the 2018 AGM.

### Tracy Clarke

Committee Chairman

# Directors' remuneration report

## Our performance at a glance

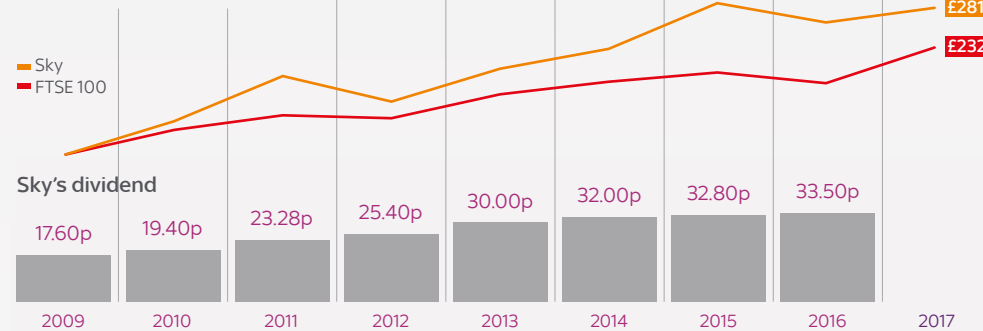
The Committee follows a policy of maintaining lower levels of fixed pay relative to the market. The structure of a high ratio of variable to fixed pay continues to provide a strong link between pay and performance and delivers strong returns for our shareholders.

### Strong alignment with shareholders is critical

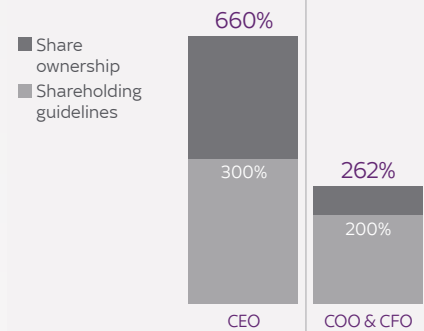
Over the last eight financial years, Sky has outperformed the FTSE 100 by 35%. Dividends increased by 90% 2009-16. Under the terms of the 21st Century Fox Offer, the Company has agreed with 21st Century Fox that it will not pay any dividends during the calendar year 2017.

Shareholding guidelines exceeded by CEO and COO & CFO

#### TSR against major indices



#### % of base salary



### Performance against our key measures has been strong

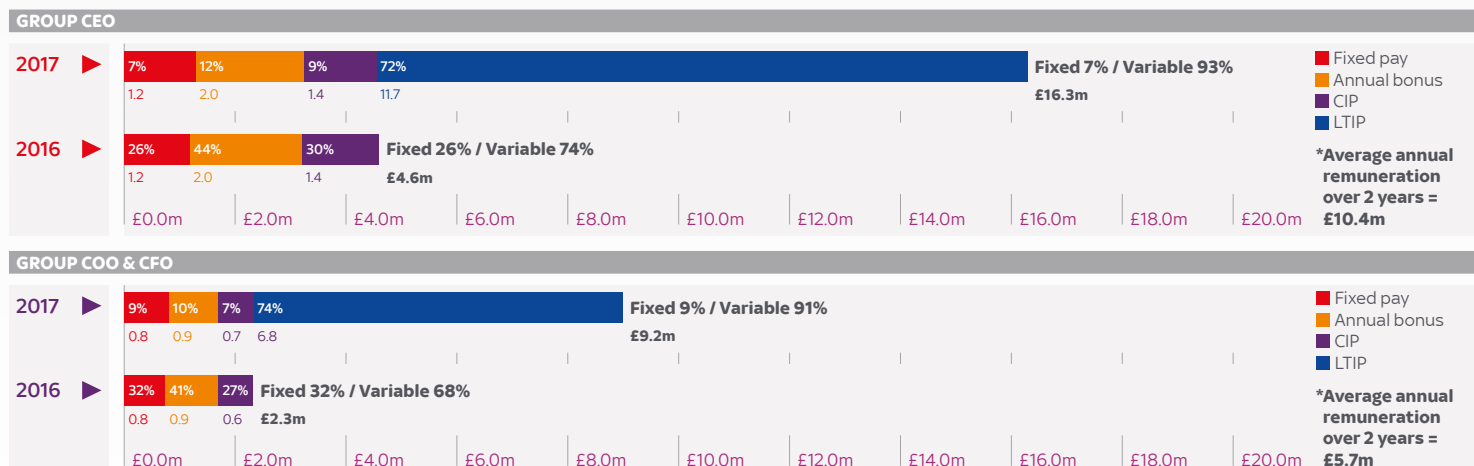
We are firm advocates of 'pay for performance' and these measures have been carefully chosen to align executive and shareholder interests. The 2017 LTIP vesting is based on operational performance and excluded relative TSR due to the impact of the Offer on Sky's share price.

Measures	Performance	Target	Notes
<b>2017 Annual bonus</b>	Revenue growth: <b>+4.9%</b>	Slightly below stretch target	Annual bonus achievement 95%, payout of 93% of maximum
	Operating profit: <b>£1,483m<sup>1</sup></b>	Outperformance vs stretch target	
	Operating cash flow: <b>£1,221m<sup>1</sup></b>	Outperformance vs stretch target	
<b>2014-17 Co-Investment Plan</b>	EPS growth: <b>6.2% p.a.</b>	Slightly below stretch target	87% vesting of CIP award
<b>2014-17 Executive Long Term Incentive Plan</b>	Revenue growth: <b>108%</b>	Outperformance vs stretch target	Over the three-year performance period the accumulated points for all three performance measures exceeded the total required for maximum vesting. Further details may be found on page 61
	Operating cash flow: <b>111%</b>	Outperformance vs stretch target	
	EPS growth: <b>6.2% p.a.</b>	Slightly below stretch target	

Our financial performance is measured on an 'adjusted' basis, as reported externally, in order to capture underlying performance. TSR performance has been removed from the LTIP measurement criteria due to the 21st Century Fox Offer. See page 51 for further details.

### 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. 2017 was a vesting year for the LTIP, so total remuneration is higher this year than in 2016



The charts show the single figure remuneration for 2016 and 2017. See page 64 for further details.

1 This is an adjusted measure and a reconciliation between statutory and adjusted measures can be found on page 141.

# Directors' remuneration report

## Our remuneration policy

Due to the 21st Century Fox Offer the proposed Remuneration Policy is presented with no material changes from the version that was approved by shareholders at the 2014 AGM.

This section describes the Directors' Remuneration Policy which shareholders will be asked to approve at the 2017 AGM. The Committee intends that this policy will take effect from that date. Should the 21st Century Fox Offer be withdrawn or lapse in sufficient time prior to the 2018 AGM the Committee intends that the Policy will be effective until the 2018 AGM, at which point a new Policy will be proposed for shareholder approval.

### Remuneration Principles

Five key principles underpin the remuneration policy for our Executive Directors:

- Our approach to executive pay is aligned to the interests of our shareholders.
- We reward our people fairly and competitively to attract, motivate and retain the skills we need to deliver significant growth.
- The level of base pay is decided in the same way as for all employees, based on individual performance and experience, the size and scope of the role and taking account of total remuneration.
- The majority of executive pay is tied to the achievement of stretching performance goals linked to the strategic priorities for the business. Executive Directors will be well rewarded only if they meet or exceed the maximum performance standards set and achieve stretching levels of performance.
- We take care to ensure that remuneration does not inadvertently encourage inappropriate risk taking.

Our principles set the foundation for our remuneration policy and ensure that decisions made by the Committee are consistent and appropriate in the context of business priorities, shareholder interests and employee pay.

### Summary of the Executive Directors' Remuneration Policy

The table below shows how our remuneration policy links to our business strategy and its terms of operation.

	Purpose and link to strategy	Operation	Maximum opportunity	Performance link
Base salary	Attracts and retains Executive Directors taking account of personal contribution and size of role.	Reviewed annually, typically with effect from 1 July. Salary is set relatively low versus the peer group of companies of similar market capitalisation to the Company. The Committee looks at pay practices in selected international media companies. Decisions on salary also take into account the performance and experience of the individual, changes in the size and scope of the role, and the level of salary awards across the business.	Any increase will be in line with those provided to employees within the Company. Higher increases may be made as a result of a change in role or responsibility or other performance-based circumstance. This is in line with our policy for all employees.	Individual and business performance is taken into account when reviewing salaries.
Pension	Provides opportunity for longer-term saving and/or retirement provision.	Executive Directors may receive employer contributions into the Sky Pension Scheme, a cash supplement in lieu of pension, or a combination thereof. All payments are made as a percentage of base salary.	Employer contributions to the pension scheme or an equivalent cash supplement are capped at around 16% of base salary.	N/A



## Directors' remuneration report – Our remuneration policy – continued

	Purpose and link to strategy	Operation	Maximum opportunity	Performance link
Other benefits	Provides Executive Directors with a range of core and fringe benefits as part of a competitive total remuneration package.	<p>Executive Directors are entitled to a range of benefits including, but not limited to, private medical insurance, life assurance, ill health income protection, paid holiday, sick pay, Sky subscription package, company car allowance and use of a company car generally for business travel purposes.</p> <p>The Committee may make minor changes to benefits, or include other benefits that are deemed appropriate from time to time.</p> <p>Relocation allowances and benefits may be provided where needed to assist with the relocation or international transfer of an Executive Director and their dependents.</p>	Benefits provided to Executive Directors are broadly in line with those offered to all employees. Where exceptions are made, the Committee ensures that benefits offered are in line with market practice for similar roles in similar organisations.	N/A
Annual bonus	Drives and rewards the delivery of stretching annual performance goals aligned with the Company's overall business strategy.	<p>Performance measures and weightings are reviewed at the start of each year to take account of current business plans. Stretching performance targets are set annually.</p> <p>Performance against targets is monitored quarterly and determined annually based on assessment of performance versus each target.</p> <p>Payment is made only once annual results have been audited.</p> <p>In exceptional circumstances the Committee 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>Awards are subject to clawback for a period of two years after payment in cases of gross misconduct and misstatement of results.</p>	<p>The maximum bonus opportunity is 200% of base salary, and is payable for the achievement of stretch objectives.</p> <p>The minimum payment is zero.</p> <p>The Committee believes the concept of threshold, target and maximum compromises our drive for growth so we set one clear and ambitious stretch target for each performance measure every year. The achievement of stretch goals will result in a payout at maximum or near-maximum. The Committee exercises its judgement on the level of bonus payable for outcomes short of maximum.</p>	<p>Performance is assessed against a combination of operational and financial objectives which are determined at the start of the year.</p> <p>The weighting of the measures is determined at the start of each year. Each measure will have a maximum weighting of 40%.</p> <p>Further details are disclosed in the notes to the policy table and the Annual Remuneration Implementation Report on page 60.</p>
Co-Investment Plan (CIP)	Encourages personal investment and shareholder alignment; rewards long-term focus and performance achievement.	<p>Executive Directors may 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 and vest based on performance over a three-year period. Shares are matched by up to 1.5 shares for every 1 share invested in line with performance.</p> <p>Once vested, participants may exercise the awards during a five-year period.</p> <p>Matching share awards are subject to clawback for a period of two years after vesting in cases of gross misconduct and misstatement of results.</p> <p>Participation in the plan is voluntary.</p>	<p>The maximum annual award is 150% of base salary.</p> <p>No matching awards are capable of vesting if performance is below threshold; a 1 for 1 match may vest when the minimum of the range is met and all the shares vest (or 1.5 shares for every share invested) when the maximum of the range is met.</p>	<p>The performance measure to determine the vesting of the shares is chosen each year and is typically a financial measure such as EPS growth.</p> <p>Further details on the performance criteria for threshold and maximum vesting are disclosed in the Annual Remuneration Implementation Report on page 60.</p>

	Purpose and link to strategy	Operation	Maximum opportunity	Performance link
Long Term Incentive Plan (LTIP)	Rewards longer-term value creation and aligns Executive Directors' interests with those of shareholders.	<p>Awards are made annually, under the terms of the scheme rules, based on number of shares. This de-links the award from increasing automatically with salary adjustments.</p> <p>Vesting of awards is based on stretching performance over a three-year period. Awards are made in Year 1 and Year 2 with vesting of both awards at the end of Year 3. This means that vesting of awards occurs every other year, with zero vesting in between.</p> <p>Once vested, participants may exercise the awards during a five-year period.</p> <p>In instances of gross misconduct all unvested LTIP awards lapse immediately.</p> <p>Awards are also subject to clawback for a period of two years after vesting in cases of gross misconduct and misstatement of results.</p> <p>The Committee may use its discretion after having taken independent advice to withhold or vary downwards any unvested awards typically in the event of:</p> <ul style="list-style-type: none"> <li>• the material restatement of the Company's audited results; or</li> <li>• actions attributable to participants resulting in material reputational damage to the business</li> </ul> <p>The Committee will determine how to apply this sanction on a case-by-case basis.</p>	<p>The Committee reviews the number of shares to be granted annually. A typical award for the Group CEO is 600,000 shares in any 12-month period.</p> <p>The maximum award level is 900,000 shares in any 12-month period. Such awards will only be made in exceptional circumstances.</p> <p>100% of the shares vest when the performance criteria are met in full. If the minimum of the range is met each year for all measures, 26% of the shares vest.</p>	<p>Performance measures are typically a mix of operational measures and relative TSR.</p> <p>Operational measures used in the past have included EPS, operating cash flow and revenue growth.</p> <p>The weighting of the measures may vary but is typically 70% operational measures and 30% relative TSR.</p> <p>Following the announcement of the 21st Century Fox Offer, the Committee removed relative TSR as a performance measure for awards due to vest on 27 July 2017.</p>

Around 690 employees are eligible for awards under the Long Term Incentive Plan. A smaller number of employees (around 130) are also invited to participate in the Co-Investment Plan. All employees are eligible to receive a comprehensive benefits package and the majority are eligible to receive either a monthly or quarterly cash incentive or an annual bonus.

# Directors' remuneration report – Our remuneration policy – continued

## Shareholder alignment

The Committee considers shareholders' views as they are received during the year, at the AGM, through shareholder meetings and through correspondence. We engaged with our major shareholders to solicit their views as part of the review of our current remuneration policy. Following the announcement of the 21st Century Fox Offer we informed shareholders of our intention to put the review on hold until the outcome of the Offer was known. If the Offer does not complete prior to the 2017 AGM we will put forward the current policy for renewal, with a firm commitment to complete the review process should the Offer fail to complete. A new policy would be put forward for approval at the 2018 AGM should the Offer be withdrawn or lapse in sufficient time prior to the 2018 AGM.

We continue to welcome feedback from our shareholders at any time.

## The context for setting executive remuneration policy

The principles underlying our existing executive remuneration policy are aligned to those that underpin reward for our employees as a whole which aim to attract, motivate and retain people by offering a market-competitive total remuneration package. The Committee takes into consideration the pay and conditions of all employees when determining the remuneration for the Executive Directors. It does not consult with employees in this process.

## Our performance measures and how they operate

Executive pay remains firmly tied to the achievement of stretching performance goals linked to business strategy. The measures we use are based on specific areas that drive growth and returns to shareholders. We believe the concept of a threshold, target and maximum formula would compromise our drive for growth so we set one clear and ambitious stretch target for each performance measure every year.

## Annual bonus

The performance measures for the annual bonus are determined by the committee based on the business priorities for the year. They are typically a mix of operational and financial performance measures. The measures are usually a combination of operating profit, operating cash flow, and revenue growth. They are all key indicators of the underlying performance of the business. Each year stretch objectives are set in the light of the Company's annual business plan and the operating environment.

## Co-Investment Plan and Long Term Incentive Plan

Performance measures for the LTIP and CIP are reviewed annually to ensure alignment with the Company's strategy and shareholders' interests. The CIP measure is typically compound EPS growth in excess of RPI over the performance period, which ensures close alignment with our shareholders' interests. Performance required for threshold and maximum vesting are described in the Annual Remuneration Implementation Report on pages 60 to 63.

The LTIP measures are typically a mix of operational measures and relative TSR performance, with a 70/30 split. The operational measures are usually EPS growth, operating cash flow and revenue growth. As the conversion of profit to cash flow is a key indicator of the underlying performance of the business it is used as a measure in both the annual bonus and the LTIP.

Following the announcement of the 21st Century Fox Offer the Committee removed the relative TSR performance metric from awards due to vest in July 2017 on the basis that TSR would no longer be a fair measure of the Company's performance due to the distortive impact of the Offer on the share price. Further details may be found in the implementation report on page 61.

Our LTIP vesting cycle is atypical and has served the business and shareholders well since it was introduced in 2005. Vesting occurs only every other year and as a consequence the amount of remuneration delivered to Executive Directors will spike every other year. This approach encourages

focus on the longer term. The performance ranges for each measure are reviewed annually in the light of the Company's three-year plan, brokers' forecasts and historical performance. Performance at the top end of the range is stretching.

## Pay scenario analysis

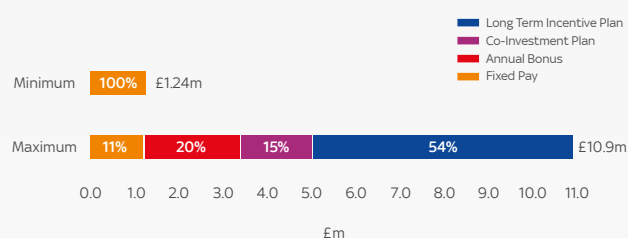
The charts below provide an estimate of the awards that could be received by our Executive Directors under the remuneration policy for 2017/18 showing:

- Minimum: base salary as at 1 July 2017, plus pension and benefits as per the table on page 64 (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)

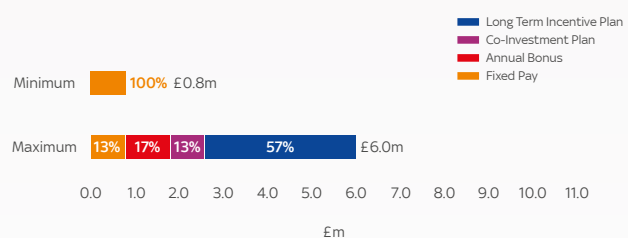
The Committee sets one clear and ambitious stretch target for each performance measure. If stretch targets are met then 100% of maximum for the bonus is paid and the shares awarded under the LTIP and CIP will vest in full. There is no additional payment for achievement over the stretch goals.

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 eight-year single figure remuneration table for the Group CEO on page 65.

## Jeremy Darroch, Group CEO



## Andrew Griffith, Group COO & CFO



Scenarios are modelled assuming a share price of £9.83 which is the average share price over the period 1 April to 30 June 2017 with no allowance for share price appreciation.

## Other share schemes

### Management Long Term Incentive Plan (MLTIP)

The Company also operates a MLTIP for selected employees excluding the Executive Directors and senior executives who participate in the LTIP. Awards under this scheme are made at the discretion of the Group CEO, within the parameters agreed by the Committee. The MLTIP mirrors the LTIP in design in order to ensure alignment between participants in either plan.



**Sharesave Scheme**

The Sharesave Scheme is open to our employees in UK, Ireland, Austria, Germany and Italy and encourages them to make a long-term investment in the Company's shares in a tax efficient way where possible under local legislation. The current legislation provides for employees to save up to £500 per month. Currently the limit for Sky employees in the UK is £250 per month although the Company may decide to adjust this amount in future. 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 or the average of the three days preceding the date of invitation. It is the policy of the Company to invite employees to participate in the scheme following the announcement of the year end results. Currently, approximately 12,200 employees participate in these schemes.

Under the terms of the 21st Century Fox Offer all existing schemes would cease on the date on which the Offer completes and employees would be able to exercise their options over the following six months. Employees would also receive a taxable cash payment equivalent to the loss in the gain they could have made had the scheme run through its normal course.

**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. New 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 page 67 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 clawback for the annual bonus, CIP and LTIP, and malus for the bonus 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.

**Remuneration on recruitment or appointment to the Board**

It is expected that the remuneration package for a new Executive Director will be agreed in line with the approved remuneration policy at the time of appointment. The Committee would seek approval from its major shareholders if it felt it necessary to pay more to attract the best candidate. The last time an executive appointment was made, the Committee approved a total remuneration package lower than the previous incumbent.

Typically base salary on appointment will take into account individual experience, the size and scope of the role, total remuneration and relevant market pay levels. Where the initial base salary is set below competitive levels, for example to account for someone who may be newly promoted to the Board, the Committee will realign salary in the years following appointment, assuming the required level of personal performance is met. The Committee will disclose its intention to do this at the time of appointment.

Other elements of remuneration will be set in line with our policy unless specific circumstances dictate otherwise. For example, it may be necessary to use different performance measures initially for the annual bonus taking into account the time of joining in the financial year and responsibilities of the individual.

The Committee may offer one-off cash and/or share-based elements in addition to the standard remuneration package. These will only be offered where it considers these to be imperative to attracting the best external candidate in order to compensate for elements of pay such as forfeited bonus entitlements and/or unvested long-term incentive awards from an existing employer. Any buy-out of unvested share awards would aim to match as far as possible the vesting terms and the expected value of the awards being bought out. This provision may also include payment for any benefits in kind, pensions and other allowances previously provided to the individual.

The Committee may also provide appropriate levels of relocation assistance and payments to external or internal appointees who are required to relocate either within, or to, the UK on taking up the role.

Where an internal candidate is promoted to the Board, any outstanding variable pay award or benefits provided in relation to the previous role may be paid or delivered according to the rules of the plan and may be adjusted to take into account the new role. The Committee may also make an LTIP award on appointment outside the annual cycle, under existing shareholder approved plans. The value of such an award will not exceed our normal policy maximum.

The remuneration arrangements for any newly appointed Executive Director will be disclosed in line with our regulatory obligations.

**Key terms of new and existing service contracts**

The Committee's policy for the Executive Directors' service contracts is provided below.

<b>Notice period</b>	Up to one year's notice for either party and a one year non-compete provision. The Company may require the individual to continue to fulfil current duties or may assign garden leave.
<b>Payment in lieu of notice</b>	One year's salary plus an amount equal to the benefits and a pro-rata bonus for the period up to the termination date. No bonus is payable for the duration of the notice period unless that period is worked.

Jeremy Darroch's initial service contract on appointment as CFO commenced on 16 August 2004. The contract was revised on 7 December 2007 when he became CEO. Andrew Griffith's service contract was revised on 7 April 2008 when he was appointed CFO. Copies of the Executive Directors' service contracts are available for inspection during normal business hours at the Company's registered office on any business day and will be available at the place where the AGM is held from 15 minutes prior to, and during the meeting.

## Directors' remuneration report – Our remuneration policy – continued

Non-Executive Directors have letters of appointment in place and are subject to annual reappointment at the AGM. These letters provide that no compensation is payable on termination other than accrued fees and expenses. The dates of these letters of appointment are detailed below:

	Date of Letter of Appointment
Chase Carey	30 January 2013
Tracy Clarke	11 June 2012
Martin Gilbert	29 November 2011
Adine Grate	17 July 2013
James Murdoch	7 December 2007
John Nallen	4 November 2015
Matthieu Pigasse	29 November 2011
Andy Sukawaty	1 June 2013
Katrin Wehr-Seiter	13 October 2016

### Payments on termination and loss of office

The Company's termination policy is shaped by the key principles that:

- contractual terms will be adhered to; and
- the circumstances of the termination will be taken into account.

Executive Directors' service contracts continue until the agreed retirement date or other date as the Company may agree and are terminable on no more than one year's notice.

The Company may terminate an Executive Director's service contract by way of payment in lieu of notice, by continuing employment for the duration of the notice period, and/or by assigning a period of garden leave. The current Executive Directors' service contracts also contain a non-compete provision of one year from the date of termination of the agreement.

### Termination 'for cause' and 'without cause': treatment of salary, bonus and benefits

In the event of termination 'for cause', salary and benefits would be payable only up to the date of termination. No bonus would be payable. In the event of termination 'without cause' the Executive Director would receive one year's salary, an amount equal to the value of the benefits he would have been eligible to receive for one year, and a pro-rated bonus for the period from the start of the financial year up to the date of termination. No bonus would be payable for the year's notice period.

### Treatment of share plans on termination

Executive Directors' entitlements to remuneration under the shareholder-approved share plans upon termination are summarised in the table below:

Plan	Reasons such as death, redundancy, retirement, ill health, injury and disability, employing company ceasing to be part of the Group or any other reason at the discretion of the Committee*	Other leaver reasons such as resignation*
LTIP	LTIP awards will not normally be exercisable until the normal vesting date, subject to the performance conditions being met. Award vesting will be pro-rated according to the portion of the performance period served unless the Committee determines otherwise.  Awards may be exercised early in certain circumstances for example, in the event of death or a takeover, or change in control.	All unvested shares will usually lapse on the date of leaving. However, the Committee has the discretion under the plan rules to determine whether a proportion of the shares may vest having taken into account any exceptional circumstances.
CIP	Any investment shares held on behalf of the participant may be sold. Any matching awards held under the CIP will vest on the same terms as outlined above in relation to the LTIP.	Investment shares may be sold. Any matching award will be forfeited. However, the Committee has the discretion to determine whether a proportion of the matching award may vest having taken into account any exceptional circumstances.
Sharesave	Options may become exercisable within 6 months, alternatively the participant may choose to withdraw savings.	Options will lapse and the participant may only withdraw savings accrued under the savings contract.

\* The share plan rules do not refer to 'for cause' or 'without cause'. Termination 'for cause' would normally be dealt with under 'Other leaver reasons'. Termination 'without cause' would be dealt with as any other reason at the discretion of the Committee.

It is the Company's policy to use its judgement when approving payments to departing Executive Directors within the provision of the plan rules. The Committee will take into account factors such as the circumstances and timing of the exit, the performance of the Executive Director while in office and the interests of 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 Chairman of their Audit Committee, a member of the Nomination Committee and as Senior Independent Director from 1 July 2017. For the period 1 July 2016 to 30 June 2017, Jeremy earned £112,084 in this role.

Andrew Griffith became Senior Independent Non-Executive Director of Just Eat plc in March 2014 and since April 2017 has been serving as Interim Chairman. He also Chairs the Audit Committee and is a member of their Remuneration and Nominations Committees. For the period 1 July 2016 to 30 June 2017, Andrew earned £72,500 in this role.

## Remuneration of the Chairman and Non-Executive Directors

The table below summarises the key components of remuneration for our Chairman and Non-Executive Directors.

	Element and purpose	Operation
Fees	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>Fees for the Chairman and the Non-Executive Directors are reviewed annually having regard to independent advice and surveys.</p> <p>The Corporate Governance &amp; Nominations Committee determines the fees paid to the Chairman, taking into account the complexity of the role and the time and commitment required. The Board of Directors determines the fees for the Non-Executive Directors.</p> <p>Additional fees for membership of or chairmanship of a committee, or for other responsibilities, are payable in addition to the basic fees. Fee levels for 2017 are disclosed in the table on page 68.</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. Non-Executive Directors' interests are disclosed in the table on page 67.</p>
Benefits		<p>Additional benefits may be provided for business purposes, eg. provision of a car to travel to/from meetings.</p> <p>Non-Executive Directors are not eligible to join Sky's pension plan.</p> <p>Non-Executive Directors are eligible to receive a Sky subscription package.</p>
Bonus and Share Plans		Non-Executive Directors are not eligible to participate in any bonus or share scheme offered by the Company.
Notice and termination provisions		<p>Each Non-Executive Director's appointment is for an initial three-year term. In accordance with the UK Corporate Governance Code, all Directors submit themselves for annual reappointment.</p> <p>Non-Executive Directors each have a letter of appointment; these appointments may be terminated without notice. Any fees payable would be settled at the date of termination. No continuing payment of fees are due if a Non-Executive Director is not re-elected by shareholders at the Annual General Meeting.</p>



# Directors' remuneration report

## Annual remuneration implementation report

This section sets out how our remuneration policy was implemented during the year ended 30 June 2017 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. In the event that the 21st Century Fox Offer is withdrawn or lapses in sufficient time prior to the 2018 AGM the Remuneration Committee will complete its policy review and will submit a new policy for shareholder approval at the 2018 AGM. No retention awards or any other arrangements have been made for the Executive Directors following the 21st Century Fox Offer.

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

This has been a year of robust performance against our key drivers of performance and is reflected in the outcomes for our variable pay plans set out below.

#### Annual bonus for 2017 performance

The annual bonus drives the achievement of annual financial and operational business goals. The plan for 2017 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:

- Revenue growth
- Operating profit
- 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. Performance is measured on an 'adjusted' basis, as reported externally, in order to capture underlying performance.

The table below 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
Revenue growth	33%	+4.9%	Slightly below stretch target
Operating profit	33%	£1,483m	Outperformance vs stretch target
Operating cash flow	33%	£1,221m	Outperformance vs stretch target

In total the business achieved 95% of its operational stretch targets. However the Committee used its discretion to pay the Executive Directors 93% of maximum, equivalent to 186% of base salary for the Group CEO and 140% for the Group COO & CFO.

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) 2014-2017

Under the terms of the CIP offered on 1 September 2014 for the performance period 1 July 2014 to 30 June 2017, Executive Directors voluntarily deferred 50% of their earned 2014 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 basic EPS growth rate was 6.2% per year over the three-year period. RPI over the same period was 2.0% per year, which includes the sharp post-Brexit increase in inflation over the final months of the performance period. The Committee agreed that the matching shares under the 2014 CIP will vest at 1.3 times on 1 September 2017, which is 87% of the maximum.

### Vesting of shares under the Executive Long Term Incentive Plan 2014–2017

The Executive Directors were awarded LTIPs in two tranches for the performance period 1 July 2014 to 30 June 2017, on 25 July 2014 and 29 July 2015 respectively. The performance conditions for vesting of these awards were originally operational targets comprising 70% of the award and relative TSR performance comprising 30% of the award. In light of the 21st Century Fox Offer, the Committee concluded that the TSR performance metric is no longer a fair measure of the Company's performance due to the effective distorting impact of the share price by the Offer, and that it would therefore be appropriate to remove TSR and have the awards vest solely based on the operational metrics. The Committee believes that these metrics are no more difficult nor easier to achieve than the TSR conditions were intended to be in the absence of the Offer. It also concluded that these metrics would be most appropriate to ensure that management remained focused on the key operational metrics that drive the business. The decision applied to all holders of LTIPs in the business.

### Operational targets

There were three equally weighted operational performance measures, each of which was determined to be a key indicator of Sky's continued success:

- EPS growth – measures our 'bottom line' performance
- Operating cash flow – measures our ability to generate and manage cash
- Revenue growth – key to our growth strategy

Performance is measured on an 'adjusted' basis, as reported externally, in order to capture underlying performance. 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 subject to the outcome of the 21st Century Fox Offer 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 committee gave careful consideration to consensus analyst forecasts and the business plan before setting stretching performance targets.

Actual performance is described as follows:

- Revenue growth: average annual revenue growth over the three-year period was 5.6% p.a.
- Operating cash flow: Average annual operating cash flow over the performance period was £1.3 billion
- EPS growth: actual growth in earnings per share over the three-year period was 6.2% p.a., with average RPI over the period of the scheme of 2.0% p.a. Maximum points would have been achieved for average EPS growth of 7.0% p.a.
- Actual points awarded for the period for these measures are:

Average EPS growth		Operating cash flow		Revenue growth	
Actual points awarded	Actual points awarded	Actual points awarded	Actual points awarded	Actual points awarded	Actual points awarded
6.48	9.64	7.23			

The total of 23.35 is in excess of the 21 points required for full vesting of the award.

## Directors' remuneration report – Annual remuneration implementation report – continued

The table below summarises performance over the three-year period versus the stretch targets

### 2014–2017 Long Term Incentive Plan performance metrics

Performance measure	Weighting	Performance	Achievement against performance measures
Revenue Growth	33%	108%	Outperformance vs stretch target
Operating Cash Flow	33%	111%	Outperformance vs stretch target
EPS Growth	33%	6.2% p.a.	Slightly below stretch target

The strong performance for revenue growth and operating cash flow over the three-year performance period was sufficient to offset the slight underperformance versus the maximum for EPS growth. The total overall vesting for the LTIP was therefore 100%.

### 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	29.07.16	£5,520,000 <sup>1</sup>	01.07.16 – 30.06.19	29.07.19	0%	100%
Andrew Griffith	350,000	29.07.16	£3,220,000 <sup>1</sup>	01.07.16 – 30.06.19	29.07.19	0%	100%
<b>Co-Investment Plan</b>							
Jeremy Darroch	176,110	31.08.16	£1,521,590 <sup>2</sup>	01.07.16 – 30.06.19	31.08.19	0%	100%
Andrew Griffith	83,159	31.08.16	£718,494 <sup>2</sup>	01.07.16 – 30.06.19	31.08.19	0%	100%

1 Market price at date of LTIP award was £9.20 on 29 July 2016.

2 Market price at date of CIP matching award was £8.64 on 31 August 2016.

### Performance conditions for the Long Term Incentive Plan

Awards made in July 2016 were 'Year 1' nil-cost awards. That is, they relate to the three-year performance period beginning on 1 July 2016 and ending on 30 June 2019. Vesting is 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

Performance is measured on an 'adjusted' basis, as reported externally, in order to capture underlying performance.

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 2021 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:

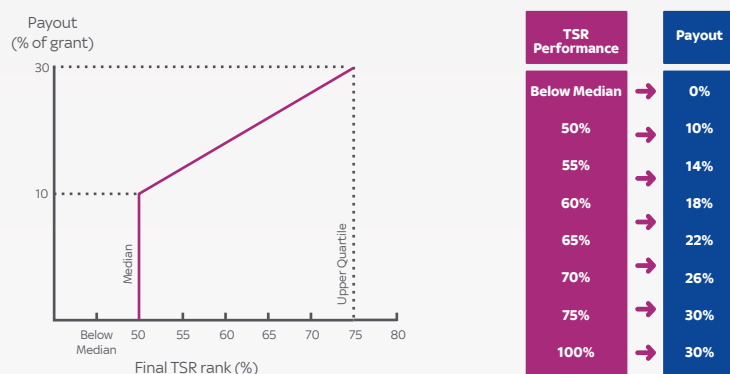
Average EPS growth		Operating cash flow		Revenue growth	
Performance achieved	Points awarded	Performance achieved (% of target)	Points awarded	Performance achieved (% of target)	Points awarded
RPI +5% p.a.	10	105% or more	10	105% or more	10
RPI +4.5% p.a.	8	100%	8	100%	8
RPI +4% p.a.	6	95%	6	95%	6
RPI +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 2016 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 of 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 2016 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

# Directors' remuneration report – Annual remuneration implementation report – continued

## 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 2017 and the prior year ended 30 June 2016. 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. 2017 was a year in which the LTIPs awarded for the performance period 1 July 2014 to 30 June 2017 vested, so the single figure for 2017 is higher than for 2016, which was a non-vesting year.

### 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>		Fixed Pay and Bonus <sup>5</sup>		Long Term Incentive Plan <sup>6</sup>		Co-Investment Plan <sup>7</sup>		Total	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Jeremy Darroch	1,014,293	1,039,650	24,185	22,122	152,191	156,930	2,028,586	1,933,749	3,219,255	3,152,451	n/a	11,796,000	1,400,028	1,394,138	4,619,283	16,342,589
Andrew Griffith	638,600	654,565	23,468	24,805	95,483	98,801	957,900	913,118	1,715,451	1,691,289	n/a	6,881,000	638,541	655,392	2,353,992	9,227,681

- Executive Directors' salaries were increased on 1 July 2016 by 2.5% for the Group CEO and Group COO & CFO. The average increase for employees at that time was 2.0%, rising to 2.7% for those earning less than £31,000 per year, with a range of 2% to 10% for performance, promotions and market adjustments.
- Taxable benefits include company car or car allowance, healthcare, provision of tax advice and other expenses incurred in the ordinary course of business which are deemed to be taxable benefits on the individual. Taxable benefits for Jeremy Darroch for 2016 have been restated to include benefits received in that year for which the cost was not known at the time.
- Pension comprises a cash allowance in lieu of company contributions.
- Bonus shows the full amount earned shortly after the year end in which the performance measures applied, including amounts deferred through the CIP. The payout for the 2016 bonus was 200% of base salary for the Group CEO and 150% for the Group COO & CFO. The figures for 2017 are 186% for the Group CEO and 140% for the Group COO & CFO, which is 93% of maximum. The Executive Directors deferred 50% of their bonus into shares through the CIP in 2016 and it is anticipated they will do so for 2017.
- Fixed Pay and Bonus is the total of salary, taxable benefits, pension and bonus for 2016 and 2017.
- Long Term Incentive Plan shows the market value of the awards that vested immediately following the end of the relevant performance period. No LTIP shares vested for the performance period ended 30 June 2016. The figure for 2017 is the estimated value for LTIP shares which vested on 25 July 2017 using the average share price over the period 1 April 2017 to 30 June 2017 of £9.83.
- Co-Investment Plan shows the market value of the matching shares that were exercised on 30 August 2016 with a share price of £8.60. Previously the value of these shares was estimated using the average share price over the period 1 April to 30 June 2016 of £9.40. It also shows the estimated value of matching shares that are due to vest on 1 September 2017, using the average share price over the period 1 April to 30 June 2017 of £9.83.

### Percentage change in Group CEO's remuneration 1 July 2016 to 30 June 2017

The table below shows the percentage change in Group CEO remuneration from 1 July 2016 to 30 June 2017 compared to the average change for all employees.

	Group CEO % change	All employees % change
Base Salary <sup>1</sup>	2.5%	2.7% employees earning less than £31,000, 2.0% above £31,000
Taxable Benefits	-8.5%	0%
Annual Bonus	-4.7%	-6%

- 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 2016 and 2017.

	2016 (£m)	2017 (£m)
Total employee costs <sup>1</sup>	1,514	1,729
Dividend payments <sup>2</sup>	564	358

- Group total including Germany and Italy.
- Under the terms of the 21st Century Fox Offer, the Company has agreed with 21st Century Fox that it will not pay any dividends during the calendar year 2017.

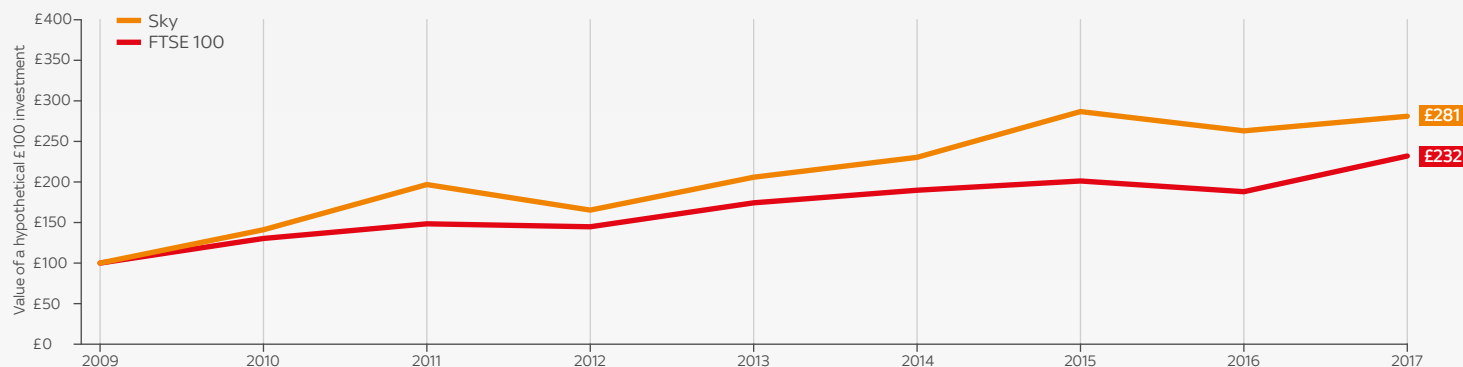
## How is the pay of our Group CEO linked to Sky's performance?

### TSR performance

The graph below shows the Company's TSR for the eight years to 30 June 2017, 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 eight 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 then possible News Corporation bid. The average annual total remuneration paid to the Group CEO over this eight-year period, excluding this one-off award, is £9,574,911.

	2010	2011	2012	2013	2014	2015	2016	2017
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	4,619,283 <sup>3</sup>	16,342,589 <sup>4</sup>
Annual Bonus payout against maximum opportunity %	100	100	100	97.5	100	100	100	93
LTIP vesting rates against maximum opportunity %	n/a	83	n/a	100	n/a	93	n/a	100
CIP vesting rates against maximum opportunity %	n/a	n/a	100	100	100	100	100	87

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 then possible News Corporation bid.

3 Includes value of CIP matching shares which were exercised on 30 August 2016 at £8.60, previously reported using the average share price over the period 1 April to 30 June 2016 of £9.40.

4 Includes valuation of LTIP shares that vested on 25 July 2017, and CIP shares due to vest on 1 September 2017, both using the average share price over the period 1 April to 30 June 2017 of £9.83.



# Directors' remuneration report – Annual remuneration implementation report – continued

## Disclosure of Performance Targets for 2015

The Committee discussed at length its approach to disclosure of performance targets. Its position that early disclosure of targets would be commercially detrimental because of the highly competitive nature of the market in which it operates still holds but it considers that performance targets for the 2015 annual bonus and 2015 LTIP vesting are no longer commercially sensitive.

### Annual bonus

In setting the bonus targets the Committee gave careful consideration to the business plan and to the research analyst consensus forecasts at the time. The targets and performance (measured on an 'adjusted' basis) for the 2015 annual bonus are shown in the table below.

Performance Metric	2014/15		Performance vs Target
	Target	Performance	
UK and Ireland paid-for Products Growth	+2.2m	+3.3m	150%
UK and Ireland Operating Profit	£1,300m	£1,350m	104%
UK and Ireland Operating Cash Flow	£1,170m	£1,414m	121%

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.

### LTIP

The LTIP that vested in 2015 for the 2012-15 performance period was based 70% on three equally weighted operational performance measures of average EPS growth, Operating Cash Flow and Revenue Growth (measured on an 'adjusted' basis). 30% of the award was based on relative TSR performance versus the FTSE 100. The operation of the Plan and the award payout table was the same as for the 2016-19 plan set out on pages 62 to 63. The targets and actual performance for Operating Cash Flow and Revenue Growth were as follows:

	UK and Ireland Operating cash flow				UK and Ireland Revenue growth			
	Target	Performance	Performance vs Target	Points	Target	Performance	Performance vs Target	Points
2012-13	£1,275m	£1,396m	109%	3.33	+5.0%	+6.5%	130%	3.33
2013-14	£1,150m	£1,284m	112%	3.33	+5.0%	+5.3%	106%	3.33
2014-15	£1,170m	£1,414m	121%	3.33	+5.0%	+5.4%	108%	3.33
<b>Total</b>				<b>10.00</b>				<b>10.00</b>

The adjusted UK and Ireland basic EPS growth target of 7.3% (RPI + 5%) per annum was exceeded with actual performance at 10% per annum. The total points achieved of 30.00 was therefore in excess of the 21 points required for full vesting of this element of the award.

Relative TSR performance was at 77% and therefore 23% of this element of the award vested. Total vesting overall was therefore 93% of the maximum.

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

In the context of the 21st Century Fox Offer the Committee has determined that the existing remuneration policy will be implemented as follows for the year ending 30 June 2018.

### Base salary

The average salary increase for our employees, effective 1 July 2017, was 3.0% 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. The Committee decided to make base salary adjustments of 2.5% each for the Group CEO and Group COO & CFO, effective 1 July 2017, in line with the parameters for our employees.

### Taxable benefits and pension

No changes.

### Annual Bonus and Co-Investment Plan

The performance measures for the annual bonus remain unchanged for the coming year, namely revenue growth, operating profit and operating cash flow. The Committee believes that these measures provide clear line of sight to the key imperatives for the business.

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 60.

### 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 27 July 2017. This is the Year 2 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 are the same as for the 2016 award.

Should the 21st Century Fox Offer complete before the end of the performance periods for the LTIP and CIP awards, the awards will vest on a cash-settled, time-pro-rated basis on the date on which the Offer completes, with no performance conditions attached. If the Offer is withdrawn or lapses the awards would vest on the normal vesting date based on the performance conditions, and be settled in shares.

## Directors' Share Interests

As at the end of the financial year, the Group CEO had beneficial ownership of 689,871 shares equivalent to 6.6 x base salary and the Group COO & CFO had beneficial ownership of 172,445 shares, equivalent to 2.6 x base salary, using the year end closing share price of £9.94. Both Executive Directors currently exceed the shareholding guidelines for Executive Directors as described on page 57.

### Interests in Sky plc shares (audited)

	As at 30 June 2016	Change during the year	As at 30 June 2017
<b>Executive Directors:</b>			
Jeremy Darroch <sup>1</sup>	628,078	61,793	689,871
Andrew Griffith <sup>1</sup>	143,267	29,178	172,445
<b>Non-Executive Directors:</b>			
Chase Carey <sup>2</sup>	-	-	-
Tracy Clarke	3,355	891	4,246
Martin Gilbert	6,346	1,460	7,806
Adine Grate	9,194	20,200	29,394
Dave Lewis	10,326	983	11,309 <sup>3</sup>
James Murdoch <sup>2</sup>	-	-	-
John Nallen <sup>2</sup>	-	-	-
Matthieu Pigasse	6,417	1,448	7,865
Andy Sukawaty	3,308	1,333	4,641
Katrin Wehr-Seiter	-	-	-

1 Interests in shares include shares purchased under the Co-Investment Plan on 30 August 2016 at a price of £8.64.

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

3 Shareholding as at 13 October 2016, the date Dave Lewis stepped down from the Board.

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

Date of award	At 30 June 2016	Vested during year	Exercised during year	Lapsed during year	At 30 June 2017	Share price at date of award	Market price on exercise	Date from which exercisable	Expiry date
<b>LTIP<sup>1,5</sup></b>									
25.07.14	600,000	-	-	-	600,000	£8.74	n/a	25.07.17	25.07.22
29.07.15	600,000	-	-	-	600,000	£11.32	n/a	25.07.17	25.07.22
29.07.16	-	-	-	-	600,000	£9.20	n/a	29.07.19	29.07.24
<b>CIP Matching<sup>2,3,4,5</sup></b>									
28.08.13	162,794	-	162,794	-	-	£8.41	£8.60	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	-	-	-	141,758	£10.42	n/a	28.08.18	28.08.23
31.08.16	-	-	-	-	176,110	£8.64	n/a	31.08.19	31.08.24
<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 2016	Vested during year	Exercised during year	Lapsed during year	At 30 June 2017	Share price at date of award	Market price on exercise	Date from which exercisable	Expiry date
<b>LTIP<sup>1,5</sup></b>									
25.07.14	350,000	-	-	-	350,000	£8.74	n/a	25.07.17	25.07.22
29.07.15	350,000	-	-	-	350,000	£11.32	n/a	25.07.17	25.07.22
29.07.16	-	-	-	-	350,000	£9.20	n/a	29.07.19	29.07.24
<b>CIP Matching<sup>2,3,4,5</sup></b>									
28.08.13	74,249	-	74,249	-	-	£8.41	£8.60	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	-	-	-	66,938	£10.42	n/a	28.08.18	28.08.23
31.08.16	-	-	-	-	83,159	£8.64	n/a	31.08.19	31.08.24
<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 2014 and 2015 are disclosed in the 2015 Annual Report.

2 The 2013 CIP award was exercised and shares subsequently sold on 30 August 2016. The aggregate value received by the Executive Directors on exercise of their 2013 CIP Matching Award before tax was £2,038,570.

3 Dividends are payable on shares purchased through the CIP. During the year the Executive Directors received £52,105 (2016: £79,621). Under the terms of the 21st Century Fox Offer, the Company has agreed with 21st Century Fox that it will not pay any dividends during the calendar year 2017.

4 Performance conditions relating to CIP Matching Awards can be found on page 60.

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

## Directors' remuneration report – Annual remuneration implementation report – continued

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

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 2017 and the prior year ended 30 June 2016.

	2017 Total Fees <sup>1</sup>	2016 Total Fees
Chase Carey	64,600	63,000
Tracy Clarke	109,600	108,000
Dave Lewis <sup>2</sup>	24,078	92,397
Martin Gilbert	114,600	144,827
Adine Grate	109,600	87,821
James Murdoch	400,000	153,231
John Nallen	64,600	41,353
Matthieu Pigasse	84,600	73,615
Andy Sukawaty <sup>3</sup>	140,074	80,154
Katrin Wehr-Seiter <sup>4</sup>	56,375	–

1 Basic fees were increased by 2.5% from 1 July 2016. Changes to responsibilities and associated fees are set out in full in the 2015/16 Remuneration Report.

2 Dave Lewis stepped down from the Board on 13 October 2016.

3 Andy Sukawaty had taxable travel expenses of £474 during the year, which has been 'grossed up' for tax and included in the total fees.

4 Katrin Wehr-Seiter joined the Board on 13 October 2016. Katrin had taxable travel expenses of £10,078 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:

	From 1 July 2017 £	From 1 July 2016 £
Chairman (all inclusive fee)	410,000	400,000
Deputy Chairman	30,000	30,000
Board member <sup>1</sup>	66,215	64,600
<b>Additional responsibilities:</b>		
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 Chairman and Non-Executive Directors were increased by 2.5% effective 1 July 2017.

### 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 13 October 2016, 91.06% of shareholders voted in favour of the Directors' Report on Remuneration. The Remuneration Policy was last approved at the AGM held on 21 November 2014, where 92.97% of shareholders voted in favour.

Resolution	Votes For	% For	Votes Against	% Against	Total Votes Cast	Votes Withheld
2016 Approval of the Remuneration Report	1,317,690,682	91.06	129,442,366	8.94	1,447,133,048	9,190,163
2014 Approval of the Remuneration Policy	1,313,682,688	92.97	99,341,288	7.03	1,413,023,976	13,646,452



## Membership of the Committee

During the year ended 30 June 2017 the Committee chaired by Tracy Clarke met six times. Tracy Clarke, Adine Grate, and Andy Sukawaty are members of the Committee. Attendance during the year is shown on page 41.

## 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 2016	October 2016	December 2016	January 2017	April 2017	June 2017
Performance outcomes for bonus, LTIP and CIP	Update on the reporting season	Review and approval of proposals for the operation of employee share plans in the context of the proposed Offer by 21st Century Fox	Shareholder feedback on remuneration policy review	Performance update - bonus, LTIP and CIP	Performance update - bonus, LTIP and CIP
Review and approve performance targets for the 2016/17 annual bonus and LTIP	Update on shareholder feedback and proxy voting service guidance	Review and approval of the proposal to remove the TSR performance metric from awards due to vest in July 2017	Implications of 21st Century Fox Offer on the remuneration policy review and on implementation of the remuneration policy	Update on the 21st Century Fox Offer and implications for the remuneration policy	Update on the 21st Century Fox Offer
Review and approve remuneration for Executive Directors and Senior Management	Review of timetable for shareholder consultation on remuneration policy				Update on executive and all employee salary remuneration proposals
Review and approve Directors' Remuneration Report	Review of Committee activities versus the Terms of Reference				Review of the first draft of the Chairman's statement
Update on remuneration policy review	Review of timetable for review of advisors to the Committee				

## 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 £111,955. 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 26 July 2017 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 49 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 2017.

## Shares

### Dividends

Under the terms of the Offer, the Company has agreed with 21st Century Fox that it will not pay any dividends during the calendar year 2017. However, should the Scheme not become effective on or before 31 December 2017, shareholders in the Company will be entitled to receive a special dividend of 10 pence per share, payable in 2018. In addition, shareholders will be entitled to receive any dividend declared and paid by the Company in the ordinary course during the calendar year 2018 and prior to the date on which the Scheme becomes effective. The price of £10.75 per share under the Scheme shall be reduced to the extent that the dividend in respect of the six months ending 31 December 2017 exceeds 13.06 pence per share and that the dividend in respect of the year ending 30 June 2018 exceeds 21.8 pence per share. Further information can be found in the announcement of the Offer dated 15 December 2016.

### Share capital

The Company's issued ordinary share capital at 30 June 2017 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 22 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 2017, 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>2</sup>	Percent of class notified
21st Century Fox UK Nominees Limited <sup>1</sup>	672,783,139	39.14

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

2 Number of shares held as at 30 June 2017.

There were no changes notified between 30 June 2017 and 26 July 2017.

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 2017, the ESOP had an interest in 6,863,924 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' or '21st Century Fox') 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. On the anticipated timetable for the Scheme, it is expected that the first of these to occur will be the Scheme becoming effective.

Members of the Independent Committee who own shares in the Company have irrevocably undertaken to vote, or procure to be voted, all voting rights attached to their own beneficial holdings of 916,268 shares (representing, in aggregate, approximately 0.053 per cent. of the share capital of the Company in issue at close of business on 26 July 2017) in favour of any resolutions proposed in connection with the Offer at any general or Court-convened meeting of the Company to implement the Offer. The members of the Independent Committee have also undertaken not to exercise, or permit the exercise of, the voting rights attaching to such beneficial holdings of shares in the Company in any manner which would frustrate the Offer.

### 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, save as set out above.

### 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.

In the event that the Scheme becomes effective and the Company's shares cease to be listed on the premium segment of the Official List, or in the event that 21CF ceases to be a controlling shareholder of the Company for the purposes of the Listing Rules, the Relationship Agreement will terminate with immediate effect.

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

At the 2016 AGM, the Directors were given authority to allot 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 then issued ordinary share capital) could only be allotted pursuant to a rights issue (the Allotment Authority). The Directors were additionally empowered to allot equity securities in the Company for cash, pursuant to the Allotment Authority, on a non-pre-emptive basis (a) in connection with a rights issue or open offer, (b) (otherwise than in connection with a rights issue or open offer) up to a maximum nominal value of £42,975,430 representing 5% of the Company's then issued share capital, and (c) (otherwise than in connection with a rights issue or open offer) up to a maximum nominal value of £42,975,430 representing a further 5% of the Company's then issued share capital for the purposes of financing a transaction (or refinancing within six months of the transaction) which the Directors determine to be an acquisition or other capital investment contemplated by the Pre-emption Group's Statement of Principles ('Principles'). In line with the Principles, the authority under (b) and (c) were sought in separate resolutions. The Company did not seek authority to buy back its own shares at the 2016 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 2017 AGM will be detailed in the notice convening the AGM at the relevant time which will be available or download from the Company's corporate website at [www.skygroup.sky/corporate](http://www.skygroup.sky/corporate).

## Board of Directors

### Board of Directors and their interests

The Directors who served during the year were: Jeremy Darroch, Andrew Griffith, Chase Carey, Tracy Clarke, Matthieu Pigasse, Martin Gilbert, Adine Grate, Dave Lewis, James Murdoch, John Nallen, Andy Sukawaty and Katrin Wehr-Seiter. Dave Lewis stepped down from the Board at the conclusion of the Annual General Meeting on 13 October 2016 and Katrin Wehr-Seiter was appointed immediately following the meeting. 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 50 to 69.

### 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. It is the intention that at the Company's 2017 AGM all continuing Executive and Non-Executive Directors will retire and offer themselves for reappointment in compliance with the Code.

### 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 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 2017.

	Male	Female
Board of Directors <sup>1,2</sup>	8 73%	3 27%
Senior managers <sup>1,2,3</sup>	189 75%	62 25%
All employees <sup>2,4</sup>	19,571 63%	11,745 37%

1 As defined in the Companies Act 2006.

2 2016/17 data is independently assured by Deloitte LLP and can be viewed online at [www.skygroup.sky/corporate/bigger-picture](http://www.skygroup.sky/corporate/bigger-picture).

3 This year we updated the reporting methodology for senior women in Italy to bring it in line with the rest of the Group.

4 Based on headcount.

### Employee engagement

At Sky we listen to our people and encourage everyone to be involved. We know great ideas come from all corners of our business and it is part of our believe in better spirit to harness those ideas for the benefit of our customers and our people. This year we used a new survey provider, GLINT, to gather feedback from our teams in the UK, ROI and Italy. We achieved record levels of participation in the survey (82% in the UK and ROI and 79% in Italy) and we continue to achieve high levels of engagement, outperforming external benchmarks by 8% in the UK and ROI and 13% in Italy. In July 2017 the survey was extended to the whole Sky Group which will allow us to consistently gather feedback from all five territories we operate in.



## Directors' report and statutory disclosures – continued

### 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	2015/16 <sup>2</sup>	2016/17
Gross absolute emissions (tCO <sub>2</sub> e)		105,839	107,294	94,616	92,968	94,420	101,039	97,584	94,809
Scope 1		20,322	23,098	20,939	20,429	20,633	24,406	24,333	25,564
Scope 2 (location-based)		85,517	84,196	73,677	72,539	73,787	76,633	73,251	69,245
Carbon intensity (tCO <sub>2</sub> e/£m)		20.7	16.3	13.9	12.8	12.4	12.9	11.7	11.0
Reduction in gross absolute CO <sub>2</sub> e emissions relative to revenue (%)	50	0	21	33	38	40	37	44	47

Our carbon emission performance is as a result of our continued investment in the UK, Italy, and Germany and Austria to increase energy efficiency. We have taken measures such as LED lighting, engaging employees, reducing product waste and investing in renewable energy including district heating.

### Sky Group-wide carbon emissions and carbon intensity 2016/17<sup>1,3</sup>

	Sky Group	UK & Ireland	Germany & Austria	Italy
<b>Gross absolute carbon emissions (tCO<sub>2</sub>e)</b>				
<b>Scope 1</b>	30,350	25,564	2,149	2,637
Fuel combustion (gas, diesel generators, fuel oil, vehicles)				
Diesel	191	134	5	52
Fuel Oil	33	n/a	33	n/a
Gas	5,568	5,401	n/a	167
Vehicle Fuel	23,245	19,267	2,095	1,883
Operation of facilities (refrigerants)				
Refrigerants	1313	762	16	535
<b>Scope 2 (location-based)</b>	<b>91,917</b>	<b>69,245</b>	<b>3,487</b>	<b>19,185</b>
Purchased district heating gross (location-based)	649	0	208	441
Purchased electricity (location-based)	91,268	69,245	3,279	18,744
<b>Scope 2 (market-based)</b>	<b>44,267</b>	<b>18,973</b>	<b>686</b>	<b>24,608</b>
Purchased district heating (market-based)	649	0	208	441
Purchased electricity (market-based)	43,618	18,973	478	24,167
<b>Total (Scope 1 and 2) (location-based) CO<sub>2</sub>e (tCO<sub>2</sub>e)</b>	<b>122,267</b>	<b>94,809</b>	<b>5,636</b>	<b>21,822</b>
<b>Total (Scope 1 and 2) (market-based) CO<sub>2</sub>e (tCO<sub>2</sub>e)</b>	<b>74,617</b>	<b>44,537</b>	<b>2,835</b>	<b>27,245</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>	568	568	n/a	n/a
<b>Carbon Intensity</b>				
Revenue (£m)	12,916	8,600	1,858	2,458
Carbon Intensity (tCO <sub>2</sub> e/£m revenue)	9.47	11.02	3.03	8.88

1 Independently assured by Deloitte LLP.

2 2015/16 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 emissions; and our market-based emissions are those remaining after emissions 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, Scope 2 and selected Scope 3 emissions, through the purchase of renewable energy investments and 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 2017 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 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 sublicence 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.

#### UEFA

On 12 June 2017, Sky Deutschland Fernsehen GmbH & Co. KG entered into an agreement with the Union des Associations Européennes de Football ('UEFA') in relation to certain media rights to broadcast matches of the UEFA Champions League for the seasons 2018/19 – 2020/21 across all distribution means (the 'German CL Agreement 18/20'). The German CL Agreement 18/20 may be terminated on a change of control if such change of control adversely affects the ability of Sky Deutschland Fernsehen GmbH & Co. KG to perform its obligations under the agreement.

On 16 June 2017, Sky Italia Srl entered into two agreements with UEFA in relation to all the media rights to broadcast matches respectively of the UEFA Champions League and the UEFA Europa League for the seasons 2018/19 – 2020/21 across all distribution means (the 'Italia UEFA Agreements'). The Italia UEFA Agreements may be terminated on a change of control if such change of control adversely affects the ability of Sky Italia Srl to perform its obligations under the agreements.

#### 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 October 2016. 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

## Directors' report and statutory disclosures – continued

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.

### Co-operation Agreement

The Company and 21CF entered into a co-operation agreement on 15 December 2016 (the 'Co-operation Agreement'). Pursuant to the Co-operation Agreement, among other things, the Company and 21CF have agreed to provide such information and assistance as the other party may reasonably require for the purposes of obtaining all merger control and regulatory clearances and authorisations, and making any submissions,



filings or notifications to any merger control and regulatory authority in relation to the Offer, and for the preparation of the document to be sent to shareholders in the Company in relation to the Scheme ('Scheme Document').

The Co-operation Agreement will terminate: (i) if agreed in writing between the Company and 21CF; (ii) if the Independent Committee withdraws, modifies or qualifies its recommendation of the Scheme or if the Scheme Document does not include such recommendation; (iii) upon receipt of a break payment by the Company; (iv) where a competing transaction completes, becomes effective or unconditional in all respects or is recommended by the Directors of the Company; (v) if the Court Meeting and General Meeting to be held in relation to the Scheme are not held by specified dates; (vi) if any condition to the Offer has been invoked, with the consent of the Panel, and the Scheme has been withdrawn; (vii) if the Offer has not been completed by 15 October 2018; or (viii) upon satisfaction of the obligation to pay the consideration to shareholders in the Company under the terms of the Scheme. 21CF has agreed to use all reasonable endeavours to secure satisfaction of all regulatory clearances and authorisations as soon as reasonably practicable.

The Co-operation Agreement records the Company's and 21CF's intention to implement the Offer by way of the Scheme, subject to the ability of 21CF (with the consent of the Panel) to implement the Offer by way of a takeover offer (as defined under section 974 of the Companies Act) in the circumstances described in the Co-operation Agreement and summarised in the announcement of the Offer made on 15 December 2016.

21CF has undertaken in the Co-operation Agreement that, on the occurrence of a Break Payment Event (as defined in the Co-operation Agreement), subject to certain other conditions, 21CF will pay or will procure the payment by a member of its group of a break payment of £200 million.

A copy of the Co-operation Agreement is available on the Company's microsite relating to the Offer at [www.skygroup.sky/corporate/investors/21st-century-fox-offer](http://www.skygroup.sky/corporate/investors/21st-century-fox-offer).

#### 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	98 (Note 3)
(2) Publication of unaudited financial information	n/a
(4) Details of long-term incentive schemes	50-69
(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	73
(11) Provision of services by a controlling shareholder	n/a
(12) Shareholder waivers of dividends	70
(13) Shareholder waivers of future dividends	70
(14) Agreements with controlling shareholders	70

#### 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 20 and 21 to the consolidated financial statements.

#### Political contributions

Political contributions of the Group during 2017 amounted to nil (2016: 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.

#### Important events

An update on the 21st Century Fox Offer is provided on page 33.

#### 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 49 and 70 to 75) was approved by the Board and signed on its behalf by the Company Secretary.

By order of the Board

Chris Taylor

Company Secretary

26 July 2017



# Financial statements









# Statement of Directors' responsibilities

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 position, performance, business model and strategy.

By order of the Board

**Jeremy Darroch**  
Group Chief Executive Officer  
26 July 2017

**Andrew Griffith**  
Group Chief Operating Officer  
and Chief Financial Officer  
26 July 2017



# Independent Auditor's report

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

### Report on the audit of the financial statements

#### Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Sky plc (the 'Parent Company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and Parent Company balance sheets;
- the consolidated and Parent Company statements of changes in equity;
- the consolidated and Parent Company cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to either the Group or the Parent Company.

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

#### Summary of our audit approach

##### Key audit matters

The key audit matters that we identified in the current year were:

- Revenue recognition for bundled items in retail subscription revenue;
- Entertainment programming expense; and
- Capital project accounting.

#### Materiality

The materiality that we used in the current year was £65 million which was determined on the basis of normalised profit before tax.

#### Scoping

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 includes the Group's UK and Irish, German and Austrian, and Italian operations.

#### Significant changes in our approach

There have been no significant changes in our approach for the period ended 30 June 2017 compared with the prior period.

#### Conclusions relating to principal risks, going concern and viability statement

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 are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 28-30 that describe the principal risks and explain how they are being managed or mitigated;
- 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 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 and the Parent Company's ability to continue to do so over a period of at least twelve 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; or
- whether the Directors' statements relating to going concern and the prospects of the company required in accordance with Listing Rule 9.8.6R(3) are materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

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.

## Independent Auditor's report – continued

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

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.

Key Audit Matter	How the scope of our audit responded to the key audit matter
<p><b>Revenue recognition for bundled items in retail subscription revenue</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 Audit Committee Report on page 45 and in the Group's critical accounting policies on page 94.</p> <p>There is a risk that inappropriate allocations could lead to non-compliance with accounting standards and incorrect acceleration or deferral of revenue.</p> <p>As required by ISAs (UK) we have identified a fraud risk in respect of revenue. Our identified risk is in respect of manual adjustments made to the system-based revenue profile of bundled items in Retail subscription revenue.</p>	<p>Our procedures performed included:</p> <ul style="list-style-type: none"><li>• Evaluating the Group's revenue recognition policy and management's current year accounting assessment for bundled transactions;</li><li>• Confirming the implementation of the Group's policy in each territory by performing tests to confirm our understanding of the process by which revenue is calculated by the relevant billing systems;</li><li>• Assessing the different product bundles and offers in the year for the risk of revenue acceleration or deferral;</li><li>• For those assessed as higher risk of revenue deferral, performing additional assessment of the accounting treatment of the bundle by confirming the fair value of different elements to appropriate evidence;</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;</li><li>• Where differences arose, auditing the valuation and accuracy of those adjustments to align revenue recognised with the Group's accounting policy;</li></ul> <p>In respect of the identified risk regarding fraud;</p> <ul style="list-style-type: none"><li>• Understanding the nature of adjustments and resulting journals that are made to the systematic billing profile; and</li><li>• Performing focused audit procedures on a sample of these journals, auditing the validity and valuation of these adjustments.</li></ul>

### Key observations

Based on our work, we consider that revenue recognition for bundled items in retail subscription revenue, including consideration of manual adjustments, has been recognised appropriately and is in accordance with the Group's revenue recognition policy.

### Key Audit Matter

#### Entertainment programming expense

Determining the timing and amount of the recognition 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 Audit Committee Report on page 45 and in the Group's critical accounting policies on page 95.

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 as follows:

- time period and frequency with which the programme is expected to be utilised on the Group's linear and non-linear services;
- expectations of the number of viewers a programme is likely to achieve for each broadcast on the Group's linear channels;
- potential benefits associated with utilising programming; and
- the relative values associated with linear channel and non-linear rights.

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.

#### Key observations

Based on our work we are satisfied the accounting for entertainment programming expenses is appropriate and in line with the Group's accounting policies.

#### Capital project accounting

The Group's spending on capital projects is material, as shown by the total value of additions in notes 10 and 11. 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 Audit Committee Report on page 45 and in the Group's critical accounting policies on page 95. 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 expenditure is inappropriately capitalised against relevant accounting guidance and that assets not yet in use are not recoverable at their carrying value.

#### Key observations

Based on our work, we are satisfied that the accounting for capital projects is appropriate and in line with the Group's accounting policies.

### How the scope of our audit responded to the key audit matter

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.

We examined the method for expensing general entertainment programming inventory, taking into account the differing genres of programmes, any significant changes to viewing patterns and industry benchmarks.

Our procedures performed included:

- benchmarking management's policy against industry practice in the UK and Italy;
- comparing the expense profile determined by management with that which would be indicated by viewing trends (used as a proxy for value from broadcast) in addition to other qualitative factors such as brand and/or channel value;
- assessing the design and implementation of controls over the recognition and expensing of general entertainment programming; and
- assessing the consistency and completeness of the disclosures in respect of the change in recognition of relicensed content.

Our procedures performed included:

- assessing the design and implementation and testing the operating effectiveness of controls in respect of the capitalisation of assets and the identified 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 and reviewing the project status to check for indicators of impairment; and
- for a sample of capital projects we have developed an understanding of the business case and have challenged key assumptions and estimates, verifying capital project authorisation and tracing project costs to appropriate evidence.



## Independent Auditor's report – continued

### 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 both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

#### Group materiality

£65 million (2016: £50 million)

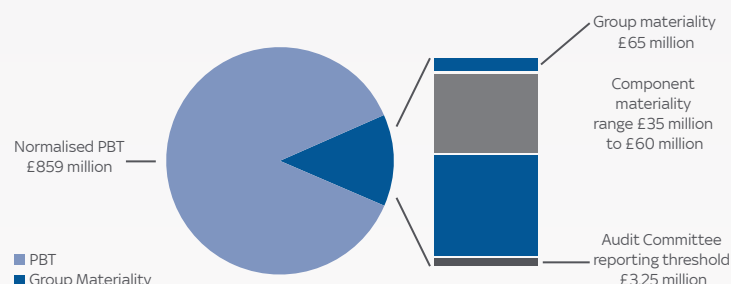
#### Basis for determining materiality

This represents 8% of normalised pre-tax profit after removing advisory fees and additional costs incurred in respect of the 21st Century Fox Offer (2016: 7%), 8% of statutory profit before tax (2016: 7%), and 5% of adjusted profit before tax (2016: 4%).

#### Rationale for the benchmark applied

As Sky plc is a public interest entity with listed equity we determined normalised pre-tax profit after removing fees incurred in respect of the 21st Century Fox Offer to be the most appropriate benchmark.

The Group's adjusted profit before tax measure further excludes additional items including the impact of amortisation of acquired intangible assets, integration and operating efficiency, derivatives not qualifying for hedge accounting and the tax effect of these adjusting items (see note 7 for management's definition and reconciliation to adjusted profit for further details).



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £3.25 million (2016: £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 on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### An overview of the scope of our audit

Our audit scope is consistent with the prior year and includes the Group's UK and Irish, German and Austrian, and Italian operations, all of which were subject to a full scope audit for the year ended 30 June 2017. As a result all of the Group's assets, revenue and adjusted 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 Irish operations was performed by the Group and UK audit team. The Group audit partner visited all components, attending key meetings with both component auditors and local management.

Audit work in UK and Ireland, Italy, and Germany and Austria was performed at levels of materiality which were lower than Group materiality and ranged from £35 million to £60 million, depending on the component's contribution to the Group's profit before tax.

### Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

### Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### **Use of our report**

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.

#### **Report on other legal and regulatory requirements**

##### **Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

#### **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 in respect of these matters.

#### **Other matters**

##### **Auditor tenure**

The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 15 years, having been appointed by the Audit Committee in 2002 and covering the years ending 2002 to 2017.

##### **Consistency of the audit report with the additional report to the audit committee**

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

**Paul Franek FCA** (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor London

26 July 2017

# Consolidated financial statements

## Consolidated income statement

for the year ended 30 June 2017

	Notes	2017 £m	2016 £m
<b>Revenue</b>	2	<b>12,916</b>	<b>11,965</b>
Operating expense	2	(11,952)	(10,988)
<b>Operating profit</b>		<b>964</b>	<b>977</b>
Share of results of joint ventures and associates	12	21	2
Investment income	3	22	17
Finance costs	3	(204)	(244)
<b>Profit before tax</b>	4	<b>803</b>	<b>752</b>
Taxation	6	(112)	(89)
<b>Profit for the year</b>		<b>691</b>	<b>663</b>
<b>Profit (loss) for the year attributable to:</b>			
Equity shareholders of the parent company		695	666
Non-controlling interests		(4)	(3)
		691	663
<b>Earnings per share from profit for the year (in pence)</b>			
Basic	7	40.6p	39.0p
Diluted	7	40.0p	38.7p

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

## Consolidated statement of comprehensive income

for the year ended 30 June 2017

	2017 £m	2016 £m
<b>Profit for the year</b>	<b>691</b>	<b>663</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
Gain on cash flow hedges (see note 20)	31	699
Tax on cash flow hedges (see note 14)	(2)	(138)
Loss on net investment hedges (see note 20)	(335)	(897)
Exchange differences on translation of foreign operations (see note 21)	396	1,082
Actuarial movements on employee benefit obligations (see note 18)	1	(3)
	91	744
<b>Amounts reclassified and reported in the income statement</b>		
Gain on cash flow hedges (see note 20)	(85)	(427)
Tax on cash flow hedges (see note 14)	17	86
	(68)	(341)
<b>Amounts reclassified and reported in non-financial assets (basis adjustment)</b>		
Gain on cash flow hedges (see note 20)	(165)	(31)
Tax on cash flow hedges (see note 14)	33	6
	(132)	(25)
<b>Other comprehensive (loss) income for the year (net of tax)</b>	<b>(109)</b>	<b>378</b>
<b>Total comprehensive income for the year</b>	<b>582</b>	<b>1,041</b>
<b>Total comprehensive income (loss) for the year attributable to:</b>		
Equity shareholders of the parent company	586	1,044
Non-controlling interests	(4)	(3)
	<b>582</b>	<b>1,041</b>



## Consolidated balance sheet

as at 30 June 2017

	Notes	2017 £m	2016 £m
<b>Non-current assets</b>			
Goodwill	9	4,930	4,713
Intangible assets	10	4,626	4,446
Property, plant and equipment	11	2,273	1,957
Investments in joint ventures and associates	12	116	123
Available-for-sale investments	13	110	71
Deferred tax assets	14	302	245
Programme distribution rights	15	63	36
Trade and other receivables	16	41	95
Derivative financial assets	20	643	1,022
		<b>13,104</b>	<b>12,708</b>
<b>Current assets</b>			
Inventories	15	1,113	990
Trade and other receivables	16	1,475	1,349
Current tax assets		12	14
Short-term deposits	20	300	-
Cash and cash equivalents	20	2,200	2,137
Derivative financial assets	20	234	212
		<b>5,334</b>	<b>4,702</b>
<b>Total assets</b>		<b>18,438</b>	<b>17,410</b>
<b>Current liabilities</b>			
Borrowings	19	974	31
Trade and other payables	17	4,303	3,902
Current tax liabilities		146	162
Provisions	18	107	181
Derivative financial liabilities	20	20	50
		<b>5,550</b>	<b>4,326</b>
<b>Non-current liabilities</b>			
Borrowings	19	8,207	8,901
Trade and other payables	17	87	81
Provisions	18	83	94
Derivative financial liabilities	20	384	259
Deferred tax liabilities	14	280	308
		<b>9,041</b>	<b>9,643</b>
<b>Total liabilities</b>		<b>14,591</b>	<b>13,969</b>
Share capital	22	860	860
Share premium	23	2,704	2,704
Reserves	23	274	(117)
<b>Total equity attributable to equity shareholders of the parent company</b>	23	<b>3,838</b>	<b>3,447</b>
<b>Total equity (deficit) attributable to non-controlling interests</b>		<b>9</b>	<b>(6)</b>
<b>Total liabilities and equity</b>		<b>18,438</b>	<b>17,410</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 26 July 2017 and were signed on its behalf by:

**Jeremy Darroch**  
Group Chief Executive Officer

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

# Consolidated financial statements – continued

## Consolidated cash flow statement

for the year ended 30 June 2017

	Notes	2017 £m	2016 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	24	2,254	2,086
Interest received		15	10
Taxation paid		(163)	(189)
<b>Net cash from operating activities</b>		<b>2,106</b>	<b>1,907</b>
<b>Cash flows from investing activities</b>			
Dividends received from joint ventures and associates		20	20
Funding to joint ventures and associates		(9)	(8)
Repayment of loan from associate		83	-
Loan to joint venture		(14)	-
Purchase of joint ventures and associates		(2)	(1)
Proceeds on disposal of joint ventures and associates		4	-
Purchase of property, plant and equipment		(628)	(542)
Proceeds on disposal of property, plant and equipment		1	3
Purchase of intangible assets		(546)	(432)
Purchase of subsidiaries (net of cash and cash equivalents purchased)		(26)	(26)
Purchase of available-for-sale investments		(34)	(50)
Proceeds on disposal of available-for-sale investments		2	16
(Increase) decrease in short-term deposits		(300)	1,100
<b>Net cash (used in) from investing activities</b>		<b>(1,449)</b>	<b>80</b>
<b>Cash flows from financing activities</b>			
Net proceeds from borrowings		-	353
Repayment of borrowings		(7)	(432)
Repayment of obligations under finance leases		(16)	(18)
Proceeds from disposal of shares in Employee Share Ownership Plan ('ESOP')		15	10
Purchase of own shares for ESOP		-	(200)
Interest paid		(238)	(231)
Capital contribution from non-controlling interests		7	-
Purchase of non-controlling interests		-	(170)
Dividends paid to shareholders of the parent		(358)	(564)
Dividends paid to holders of non-controlling interests		(4)	(3)
<b>Net cash used in financing activities</b>		<b>(601)</b>	<b>(1,255)</b>
<b>Net increase in cash and cash equivalents</b>		<b>56</b>	<b>732</b>
Cash and cash equivalents at the beginning of the year		2,137	1,378
Effect of foreign exchange rate movements		7	27
<b>Cash and cash equivalents at the end of the year</b>		<b>2,200</b>	<b>2,137</b>

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

## Consolidated statement of changes in equity

for the year ended 30 June 2017

	Attributable to equity shareholders of the parent company							Non-controlling interests £m	Total equity £m
	Share capital £m	Share premium £m	ESOP reserve £m	Hedging reserve £m	Other reserves £m	Retained (deficit) earnings £m	Total shareholders' equity £m		
<b>At 1 July 2015</b>	<b>860</b>	<b>2,704</b>	<b>(125)</b>	<b>62</b>	<b>119</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>183</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>302</b>	<b>(551)</b>	<b>3,447</b>	<b>(6)</b>	<b>3,441</b>
Profit (loss) for the year	-	-	-	-	-	695	695	(4)	691
Net investment hedges	-	-	-	-	(335)	-	(335)	-	(335)
Exchange differences on translation of foreign operations	-	-	-	-	396	-	396	-	396
Recognition and transfer of cash flow hedges	-	-	-	(219)	-	-	(219)	-	(219)
Tax on items taken directly to equity	-	-	-	48	-	-	48	-	48
Actuarial movements on employee benefit obligations	-	-	-	-	1	-	1	-	1
<b>Total comprehensive income (loss) for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(171)</b>	<b>62</b>	<b>695</b>	<b>586</b>	<b>(4)</b>	<b>582</b>
Share-based payment	-	-	47	-	-	109	156	-	156
Non-controlling interests arising on purchase of subsidiaries	-	-	-	-	-	-	-	23	23
Tax on items taken directly to equity	-	-	-	-	-	7	7	-	7
Dividends	-	-	-	-	-	(358)	(358)	(4)	(362)
<b>At 30 June 2017</b>	<b>860</b>	<b>2,704</b>	<b>(78)</b>	<b>86</b>	<b>364</b>	<b>(98)</b>	<b>3,838</b>	<b>9</b>	<b>3,847</b>

For a description of the nature and purpose of each equity reserve, see note 23.

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 2017, this date was 2 July 2017, this being a 52 week year (fiscal year 2016: 3 July 2016, 53 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.

Adjusted measures disclosed in the consolidated financial statements exclude items that 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. Adjusted measures are not defined terms under IFRS and may not be comparable to similar measures used elsewhere.

### 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 profit or loss and other comprehensive income 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.

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 over licence period, as applicable
- 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 straight line 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). 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. 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 initial cost or other carrying amount of the non-financial asset or liability on the balance sheet and affect 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.

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.

# Notes to the consolidated financial statements – continued

## 1. Accounting policies (continued)

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 in the initial cost or other carrying amount of the non-financial asset or liability on the balance sheet 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 25). Payments made in advance of the legal right to broadcast the programmes are treated as prepayments in trade and other receivables.

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 and/or significantly 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 programming rights broadcast on the Group's linear channels are recognised in the income statement on either an accelerated or straight-line basis. The amortisation profile is principally based on the expected value of each planned broadcast on the Group's linear channels and the time period over which the economic value of the content is expected to be consumed and utilised. Relicensed content is amortised on a straight-line basis over the time period the rights are expected to be utilised. The cost attributable or apportioned to non-linear (on demand) rights is 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 'Inventories'.

### 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

Directly attributable transaction costs are included in the initial measurement of financial assets and liabilities only with respect to those assets and liabilities that are not subsequently measured at fair value through profit and loss. 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 date the impairment is observed. 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 within the next 12 months, 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.

#### 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.

#### j) 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), 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.

#### 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, and is measured at the fair value of the consideration received or receivable. The Group's main sources of revenue are recognised as follows:

- Subscription revenue includes revenue from residential and commercial subscribers to TV, Mobile and home communication products, including over-the-top ('OTT') subscriptions, and income from set-top box and Mobile handset sales, 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, where the stage of completion is determined by comparing the proportion of costs incurred to date to the total estimated cost of the transaction. Distribution revenue is recognised when the contract is signed and the final content has been delivered for customer exploitation.

# Notes to the consolidated financial statements – continued

## 1. Accounting policies (continued)

- 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.

A bundle exists where a customer enters into contracts for goods and services at or around the same time, where the transaction can only be understood commercially with reference to the bundle of goods and services as a whole, and where there is price inter-dependency between the products in a bundle. Where a customer purchases further products or services subsequent to the original sale, these are judged to represent contract modifications and are accounted for separately to the original bundle, with any associated discounts recognised against the additional products and services being added.

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 (cannot exceed) the cash received or consideration receivable. Discounts are allocated to products on a pro-rata basis according to relative fair values, except where there is observable evidence that the discount relates to one or more, but not all, products within the bundle.

### 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. Taxable 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 2017. 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 IAS 7 '*Disclosure Initiative*' (effective 1 January 2017)\*
- Amendments to IAS 12 '*Recognition of Deferred Tax Assets for Unrealised Losses*' (effective 1 January 2017)\*
- Amendments to IFRS 2 '*Share-based Payments*' (effective 1 January 2018)\*
- IFRIC 22 '*Foreign Currency Transactions and Advanced Consideration*' (effective 1 January 2018)\*
- Amendments to IFRS 4 '*Insurance contracts*' (effective 1 January 2018)\*
- Amendments to IAS 40 '*Investment Properties*' (effective 1 January 2018)\*
- IFRS 15 '*Revenue from Contracts with Customers*' (effective 1 January 2018) and is effective on the Group from 1 July 2018 onwards.

When IFRS 15 is adopted, it can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, or with the cumulative impact of IFRS 15 applied as an adjustment to equity on the date of adoption; when the latter approach is applied, it is necessary to disclose the impact of IFRS 15 on each line item in the financial statements in the reporting period. The Group has not yet determined which method will be adopted.

IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers:

- Identify the contract with the customer
- Identify the performance obligations in the contract, introducing the new concept of 'distinct'
- Determining the transaction price
- Allocating the transaction price to the performance obligations in the contracts, on a relative stand-alone selling price basis.
- Recognise revenue when (or as) the entity satisfies its performance obligation

IFRS 15 also introduces new guidance on, amongst other areas, combining contracts, discounts, variable consideration, contract modifications and requires that certain costs incurred in obtaining and fulfilling customer contracts be deferred on the balance sheet and amortised over the period an entity expects to benefit from the customer relationship.

In the current year, management has conducted a detailed accounting scoping analysis across each of the Group's operating segments and across the products and services within the Group's revenue streams. Management has also assessed accounting implementation approaches for each revenue stream in each segment based on the potential materiality, complexity and volatility of impacts.

Qualitatively, management currently expects the following impacts:

- The Group's revenue recognition for bundled subscription products will no longer be limited to cash received or consideration receivable for a delivered element. As a result, the Group will bring forward revenue for distinct products and services delivered at the start of a subscription contract, where the price charged for those performance obligations is lower than the stand-alone selling price. This will correspondingly reduce subsequent subscription revenue across the remainder of the customer contract, but will not change revenue recognised in total or the amount or timing of associated cash flows.
- Where product or service discounts reduce the total consideration for a customer's bundle, the revenue which will be brought forward for upfront deliverables will be reduced. The impact of discounts will be spread over the minimum contract period. There is also new guidance regarding how and to which products discounts should be allocated, which may result in differences to current treatments.
- Under the guidance as to what constitutes distinct performance obligations, there may be differences compared to what the Group currently considers to be separately identifiable deliverables. Management will also need to consider any associated cost implications of any differences.
- Under the guidance regarding contract modifications, the accounting for contract modifications not made at stand-alone sales price, is expected to differ compared to current accounting treatments.
- There may be certain costs to obtain customer contracts that will require capitalisation and amortisation over the period the Group expects to benefit from the customer relationship, compared to being expensed as incurred, as currently.
- Existing principal versus agent judgements require evaluation against new guidance. Should current judgements change, this could significantly change gross revenue and cost, but with no expected impact on operating profit.



# Notes to the consolidated financial statements – continued

## 1. Accounting policies (continued)

- The phasing of revenue for long-term contracts may vary compared to current treatments.
- IFRS 9 'Financial Instruments' (effective 1 January 2018) and is effective on the Group from 1 July 2018 onwards.

The standard is expected to impact the classification and measurement of financial instruments and is expected to require certain additional disclosures.

It introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for the credit event to have occurred before a credit loss is recognised.

It also introduces a new hedge accounting model that is designed to more closely align with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

The Group is currently assessing the impact of the accounting changes that will arise under IFRS 9.

- IFRS 16 'Leases' (effective 1 January 2019)\* and is effective on the Group from 1 July 2019 onwards.

When IFRS 16 is adopted, it can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, or with the cumulative retrospective impact of IFRS 16 applied as an adjustment to equity on the date of adoption; when the latter approach is applied it is necessary to disclose the impact of IFRS 16 on each line item in the financial statements in the reporting period. Depending on the adoption method that is utilised, certain practical expedients may be applied on adoption. The Group has not yet determined which method will be adopted.

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. Lessee accounting under IFRS 16 will be similar in many respects to existing IAS 17 accounting for finance leases, but is expected to be substantively different to existing accounting for operating leases.

Where a contract meets IFRS 16's definition of a lease and new associated guidance, 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 on the Group's balance sheet.

Lease costs will be recognised in the form of depreciation of the right to use asset and interest on the lease liability, which may impact the phasing of operating profit and profit before tax, compared to existing cost profiles and presentation in income statement, and will also impact the classification of associated cash flows.

The Group is currently assessing the impact of the accounting changes that will arise under IFRS 16.

- IFRS 17 'Insurance Contracts' (effective 1 January 2021)\*.

\* not yet endorsed for use in the EU

### 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.

### Critical accounting policies and judgements:

#### 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. Judgement is required in determining which products constitute a bundle, and how revenue is allocated to products within the bundle. When the Group sells a set-top box, installation or service and TV, home communications and/or mobile subscriptions 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 or consideration receivable. Discounts are allocated to products on a pro-rata basis according to relative fair values, except where there is observable evidence that the discount relates to one or more, but not all, products within the bundle, so as to faithfully represent the commercial substance of the transaction.

#### ii. Taxation, including deferred taxation (see notes 6 and 14)

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 £727 million (2016: £681 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 £296 million (2016: £243 million), as described in note 14.

#### iii. Acquisition accounting and goodwill (see note 9)

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 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 9, allocated by cash generating unit.

Judgement is required in evaluating whether any impairment loss has arisen against the carrying amount of goodwill.

#### iv. Intangible assets and property, plant and equipment (see notes 10 and 11)

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 15)

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, which directly influences subscription revenues. 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.

#### Key sources of estimation and uncertainty:

##### vi. Recoverability of deferred tax assets

The recognition of deferred tax assets is contingent on the Group's estimation of the future taxable income, particularly that of Sky Deutschland. This estimation is supported by the Group's latest available four-year forecast, which was considered by the Company's Board of Directors, and extrapolated beyond the forecast period as disclosed in note 14. 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 9.

As such, the carrying value of deferred tax assets is sensitive to the method, assumptions and estimates underlying the calculations. We consider the sensitivity of the outcome to plausible changes in key inputs, as part of our assessments. Uncertainty around key sources of estimation will be resolved over the passage of time, as future performance materialises and latest forecasts are considered.

##### vii. Goodwill impairment assessments

Goodwill impairment assessments require the calculation of the recoverable amount of cash generating units to which the goodwill is associated. Such calculation involves 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.

As such, the carrying value of goodwill is sensitive to the method, assumptions and estimates underlying the calculations. We consider the sensitivity of the outcome to plausible changes in key inputs, as part of our assessments. Uncertainty around key sources of estimation will be resolved over the passage of time, as future performance materialises and latest forecasts are considered.

## Notes to the consolidated financial statements – continued

### 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, mobile 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 2017

	UK & Ireland £m	Germany & Austria £m	Italy £m	Adjusting Items and Eliminations £m	Statutory Group Total £m
Subscription	7,113	1,676	2,080	-	10,869
Transactional	168	22	34	-	224
Programme and Channel Sales	698	22	62	(4)	778
Advertising	508	76	242	-	826
Other	117	62	40	-	219
<b>Revenue</b>	<b>8,604</b>	<b>1,858</b>	<b>2,458</b>	<b>(4)</b>	<b>12,916</b>
Inter-segment revenue	(4)	-	-	4	-
<b>Revenue from external customers</b>	<b>8,600</b>	<b>1,858</b>	<b>2,458</b>	<b>-</b>	<b>12,916</b>
Programming	(3,649)	(1,039)	(1,495)	(17)	(6,200)
Direct network costs	(964)	-	-	-	(964)
Sales, general and administration	(2,699)	(779)	(827)	(483)	(4,788)
<b>Operating expense</b>	<b>(7,312)</b>	<b>(1,818)</b>	<b>(2,322)</b>	<b>(500)</b>	<b>(11,952)</b>
<b>EBITDA</b>	<b>1,743</b>	<b>142</b>	<b>254</b>	<b>(203)</b>	<b>1,936</b>
Depreciation and amortisation	(451)	(102)	(118)	(301)	(972)
<b>Operating profit</b>	<b>1,292</b>	<b>40</b>	<b>136</b>	<b>(504)</b>	<b>964</b>
Share of results of joint ventures and associates					21
Investment income					22
Finance costs					(204)
<b>Profit before tax</b>					<b>803</b>



## 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
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>

Results for each segment are presented on an adjusted basis. A reconciliation of statutory to adjusted profit is shown in note 7 which also includes a description of the adjusting items. Transactions between segments are recorded based on estimated market prices.

Revenue of £8,050 million (2016: £7,908 million) arises from goods and services provided to the UK and revenue of £4,866 million (2016: £4,057 million) arises from services provided to other countries. Non-current assets located in the UK were £10,915 million (2016: £10,404 million) and non-current assets located outside the UK were £977 million (2016: £748 million).

Included within operating expenses for the year ended 30 June 2017 are:

- Costs of £140 million (2016: £142 million) relating to corporate restructuring and efficiency programmes. These costs have been recognised as follows:
  - £20 million (2016: £28 million) within Programming
  - £120 million (2016: £114 million) within Sales, general and administration ('SG&A')
- Costs of £50 million (2016: £84 million) relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group. These costs have been recognised as follows:
  - £1 million (2016: £18 million) within Programming
  - £49 million (2016: £66 million) within SG&A
- Costs of £40 million (2016: nil) relating to share-based payments incurred as a result of the 21st Century Fox Offer recognised within SG&A.
- Costs of £16 million (2016: nil) relating to advisory fees associated with the 21st Century Fox Offer recognised within SG&A.
- Costs of nil (2016: £8 million) relating to the remeasurement of derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness recognised within Programming.
- Costs of nil (2016: £4 million) relating to advisory and transaction fees incurred on the purchase of Sky Deutschland and Sky Italia recognised within SG&A.
- Costs of £258 million (2016: £343 million) relating to the amortisation of acquired intangible assets recognised within SG&A.

## Notes to the consolidated financial statements – continued

### 3. Investment income and finance costs

	2017 £m	2016 £m
<b>Investment income</b>		
Interest on cash, cash equivalents and short-term deposits	6	9
Interest on other loans and receivables	16	8
	<b>22</b>	<b>17</b>
	2017 £m	2016 £m
<b>Finance costs</b>		
<b>– Interest payable and similar charges</b>		
Facility related costs	(5)	(6)
Guaranteed Notes (see note 19)	(233)	(224)
Finance lease interest	(7)	(8)
	<b>(245)</b>	<b>(238)</b>
<b>– Other finance income (expense)</b>		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	22	(12)
Remeasurement of other derivative financial instruments (not qualifying for hedge accounting)	18	6
(Loss) gain arising on derivatives in a designated fair value hedge accounting relationship	(47)	1
Gain (loss) arising on adjustment for hedged item in a designated fair value hedge accounting relationship	48	(1)
	<b>41</b>	<b>(6)</b>
	<b>(204)</b>	<b>(244)</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 2.7% (2016: 2.8%) to expenditure on such assets. The amount capitalised in the current year amounted to £10 million (2016: £14 million). Tax relief in the current year on capitalised interest totals £1 million (2016: £1.5 million).

### 4. Profit before taxation

Profit before taxation is stated after charging:

	2017 £m	2016 £m
Cost of inventories recognised as an expense	4,847	4,088
Depreciation, impairment and losses (profits) on disposals of property, plant and equipment	366	356
Amortisation, impairment and losses (profits) on disposals of intangible assets	606	637
Rentals on operating leases and similar arrangements	99	95

#### Foreign exchange

Foreign exchange gains recognised in the income statement during the year amounted to £23 million (2016: gains of £14 million).

## 4. Profit before taxation (continued)

### Audit fees

An analysis of auditor's remuneration is as follows:

	2017 £m	2016 £m
Fees payable to the Company's auditor for the audit of the Company's annual accounts	3.1	2.4
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	0.5	0.5
<b>Total audit fees</b>	<b>3.6</b>	<b>2.9</b>
Audit-related services	0.8	0.3
Taxation services	0.2	0.8
Other assurance services	0.5	0.3
Other advisory services	2.7	6.4
<b>Total non-audit fees</b>	<b>4.2</b>	<b>7.8</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 were £2.7 million (2016: £6.4 million).

## 5. Employee benefits and key management compensation

### a) Group employee benefits

	2017 £m	2016 £m
Wages and salaries	1,331	1,190
Social security costs	202	184
Costs of employee share option schemes <sup>1</sup>	147	100
Contributions to the Group's pension schemes <sup>2</sup>	49	40
	<b>1,729</b>	<b>1,514</b>

<sup>1</sup> £147 million relates to equity-settled share-based payments (2016: £100 million).

<sup>2</sup> 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 2017 was £9 million (2016: £6 million).

The average monthly number of full-time equivalent persons (including temporary employees) employed by the Group during the year was as follows:

	2017 Number	2016 Number
Channels and services	4,750	5,033
Customer service, sales and marketing	16,774	15,712
Transmission and technology	4,962	4,686
Management and administration	2,646	2,510
	<b>29,132</b>	<b>27,941</b>

There are approximately 1,009 (2016: 959) temporary staff included within the average number of full-time equivalent persons employed by the Group.

### b) Key management compensation (see note 27d)

	2017 £m	2016 £m
Short-term employee benefits	6	6
Share-based payments	11	9
	<b>17</b>	<b>15</b>

Post-employment benefits were less than £1 million (2016: less than £1 million). The amounts disclosed for key management compensation are included within the disclosures in note 5(a).



## Notes to the consolidated financial statements – continued

### 6. Taxation

#### a) Taxation recognised in the income statement

	2017 £m	2016 £m
<b>Current tax expense</b>		
Current year – UK	183	224
Adjustment in respect of prior years – UK	(34)	(29)
Current year – Overseas	16	19
Adjustment in respect of prior years – Overseas	(16)	-
<b>Total current tax charge</b>	<b>149</b>	<b>214</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences – UK	(17)	5
Adjustment in respect of prior years – UK	11	9
Origination and reversal of temporary differences – Overseas	(31)	(130)
Adjustment in respect of prior years – Overseas	-	(9)
<b>Total deferred tax credit</b>	<b>(37)</b>	<b>(125)</b>
<b>Taxation</b>	<b>112</b>	<b>89</b>

#### b) Taxation recognised directly in equity

	2017 £m	2016 £m
Current tax credit relating to share-based payments	(1)	(21)
Deferred tax (credit) charge relating to share-based payments	(6)	21
Deferred tax (credit) charge relating to cash flow hedges	(48)	46
	<b>(55)</b>	<b>46</b>

#### c) Reconciliation of effective tax rate

The tax expense for the year is lower (2016: lower) than the expense that would have been charged using the blended rate of corporation tax in the UK (19.75%) applied to profit before tax. The applicable enacted or substantively enacted effective rate of UK corporation tax for the year was 19.75% (2016: 20.0%). The differences are explained below:

	2017 £m	2016 £m
Profit before tax:	803	752
Profit before tax multiplied by blended rate of corporation tax in the UK of 19.75% (2016: 20.0%)	159	150
Effects of:		
Different statutory tax rates of overseas jurisdictions	(15)	(29)
Disposal of Group investments	-	(2)
Net effect of other non-taxable/non-deductible items	7	26
Effect of tax rate changes	-	(27)
Adjustments in respect of prior years	(39)	(29)
<b>Taxation</b>	<b>112</b>	<b>89</b>

### 7. Earnings per share

The weighted average number of shares for the year was:

	2017 Millions of shares	2016 Millions of shares
Ordinary shares	1,719	1,719
ESOP trust ordinary shares	(9)	(12)
<b>Basic shares</b>	<b>1,710</b>	<b>1,707</b>
Dilutive ordinary shares from share options	29	14
<b>Diluted shares</b>	<b>1,739</b>	<b>1,721</b>

There are 89,756 share options (2016: 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.

## 7. 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.

	2017 £m	2016 £m
Profit for the year	691	663
Loss attributable to non-controlling interests	4	3
<b>Profit attributable to equity shareholders of the parent company</b>	<b>695</b>	<b>666</b>

	2017 £m	2016 £m
<b>Reconciliation from profit 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 attributable to equity shareholders of the parent company	695	666
Costs relating to corporate restructuring and efficiency programmes	140	142
Costs relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group	50	84
Costs relating to share-based payments incurred as a result of the 21st Century Fox Offer	40	-
Costs relating to advisory fees associated with the 21st Century Fox Offer	16	-
Advisory and transaction fees incurred on the purchase of Sky Deutschland and Sky Italia	-	4
Amortisation of acquired intangible assets	269	347
Profit on disposal of joint venture (see note 12)	(8)	-
Interest income on credit received following an Ofcom determination	(8)	-
Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness	(41)	14
Tax adjusting items and the tax effect of above items	(103)	(180)
<b>Adjusted profit for the year attributable to equity shareholders of the parent company</b>	<b>1,050</b>	<b>1,077</b>

	2017 pence	2016 pence
<b>Earnings per share from profit for the year</b>		
Basic	40.6p	39.0p
Diluted	40.0p	38.7p
<b>Adjusted earnings per share from adjusted profit for the year</b>		
Basic	61.4p	63.1p
Diluted	60.4p	62.6p

## 8. Dividends

	2017 £m	2016 £m
<b>Dividends declared and paid during the year</b>		
2015 Final dividend paid: 20.50p per ordinary share	-	350
2016 Interim dividend paid: 12.55p per ordinary share	-	214
2016 Final dividend paid: 20.95p per ordinary share	358	-
	<b>358</b>	<b>564</b>

Under the terms of the 21st Century Fox Offer, the Company has agreed with 21st Century Fox that it will not pay any dividends during the calendar year 2017.

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.

# Notes to the consolidated financial statements – continued

## 9. Goodwill

	£m
Carrying value	
At 1 July 2015	4,160
Foreign exchange movements	546
Other	7
<b>At 30 June 2016</b>	<b>4,713</b>
Foreign exchange movements	188
Other	29
<b>At 30 June 2017</b>	<b>4,930</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:

	2017 £m	2016 £m
UK and Ireland <sup>1</sup>	932	911
Germany and Austria <sup>2</sup>	3,192	3,018
Italy <sup>3</sup>	806	784
	<b>4,930</b>	<b>4,713</b>

Impairment reviews were performed on these goodwill balances at 30 June 2017, which did not indicate impairment.

Recoverable amounts for each of the cash generating units ('CGU's') were calculated on the basis of value in use, using cash flows calculated for the next four years as forecast by management. A long-term growth rate of 2% was applied to all units in order to extrapolate cash flow projections beyond this period (2016: 3%). The cash flows of the UK and Ireland CGU were discounted using a pre-tax discount rate of 10% (2016: 8%), the cash flows of the Germany and Austria CGU were discounted using a pre-tax discount rate of 8% (2016: 7%) and the cash flows of the Italy CGU were discounted using a pre-tax discount rate of 10% (2016: 9%).

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 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 (2016: £31 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 £573 million (2016: £546 million).

## 10. 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 2015	476	616	603	2,979	426	122	116	5,338
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>
Additions from business combinations	-	-	-	22	5	-	-	27
Additions	-	135	105	-	72	98	143	553
Disposals	-	(50)	(21)	-	(2)	(8)	-	(81)
Transfers	-	112	92	-	1	(117)	(88)	-
Foreign exchange movements	27	-	12	181	6	-	4	230
<b>At 30 June 2017</b>	<b>573</b>	<b>947</b>	<b>854</b>	<b>3,654</b>	<b>592</b>	<b>121</b>	<b>287</b>	<b>7,028</b>
<b>Amortisation</b>								
At 1 July 2015	4	309	340	271	330	-	-	1,254
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>
Amortisation	1	137	123	251	76	-	-	588
Disposals	-	(50)	(21)	-	(2)	(8)	-	(81)
Impairments	-	3	6	-	1	8	-	18
Foreign exchange movements	-	-	4	20	-	-	-	24
<b>At 30 June 2017</b>	<b>6</b>	<b>475</b>	<b>517</b>	<b>924</b>	<b>480</b>	<b>-</b>	<b>-</b>	<b>2,402</b>
<b>Carrying amounts</b>								
At 1 July 2015	472	307	263	2,708	96	122	116	4,084
At 30 June 2016	541	365	261	2,798	105	148	228	4,446
<b>At 30 June 2017</b>	<b>567</b>	<b>472</b>	<b>337</b>	<b>2,730</b>	<b>112</b>	<b>121</b>	<b>287</b>	<b>4,626</b>

1 In the prior 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	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m
Estimated amortisation charge	512	443	361	307	267

Within intangible assets there are certain assets with indefinite useful lives. The carrying value of these assets is £604 million (2016: £577 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 (see note 9).

Included within customer contracts and related customer relationships are intangible assets with a net book value of £1,555 million (2016: £1,584 million) and a remaining useful life of 13 years (2016: 14 years) relating to the acquired customer base in Germany and Austria and intangible assets with a net book value of £1,030 million (2016: £1,077 million) and a remaining useful life of 13 years (2016: 14 years) relating to the acquired customer base in Italy.



# Notes to the consolidated financial statements – continued

## 11. 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>3</sup> £m
<b>Cost</b>						
At 1 July 2015	391	95	1,609	372	317	2,784
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>
Additions	32	13	112	6	503	666
Disposals	(4)	(24)	(66)	(98)	-	(192)
Transfers	210	5	143	387	(745)	-
Foreign exchange movements	1	1	6	23	1	32
<b>At 30 June 2017</b>	<b>653</b>	<b>99</b>	<b>1,970</b>	<b>934</b>	<b>240</b>	<b>3,896</b>
<b>Depreciation</b>						
At 1 July 2015	61	50	948	79	-	1,138
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>
Depreciation	12	10	200	125	-	347
Impairments	3	-	-	2	-	5
Disposals	(4)	(24)	(65)	(84)	-	(177)
Foreign exchange movements	-	1	2	12	-	15
<b>At 30 June 2017</b>	<b>84</b>	<b>47</b>	<b>1,221</b>	<b>271</b>	<b>-</b>	<b>1,623</b>
<b>Carrying amounts</b>						
At 1 July 2015	330	45	661	293	317	1,646
At 30 June 2016	341	44	691	400	481	1,957
<b>At 30 June 2017</b>	<b>569</b>	<b>52</b>	<b>749</b>	<b>663</b>	<b>240</b>	<b>2,273</b>

1 The amounts shown include assets held under finance leases with a net book value of £8 million (2016: £25 million). The cost of these assets was £30 million (2016: £54 million) and the accumulated depreciation was £22 million (2016: £29 million). Depreciation charged during the year on such assets was £5 million (2016: £12 million).

2 Depreciation was not charged on £88 million of land (2016: £88 million).

3 In the prior year, property, plant and equipment of £1 million was disposed of as part of the disposal of a subsidiary.

## 12. 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 28 to the consolidated financial statements.

The movement in joint ventures and associates during the year was as follows:

	2017 £m	2016 £m
Share of net assets:		
At 1 July	123	133
Movement in net assets		
- Funding	9	8
- Dividends received	(20)	(20)
- Share of profits <sup>1</sup>	21	2
- Acquisition of associates and joint ventures	2	1
- Disposal of joint venture <sup>1</sup>	(19)	-
- Exchange differences on translation of foreign joint ventures and associates	-	(1)
<b>At 30 June</b>	<b>116</b>	<b>123</b>

1 During the year, the Group acquired a controlling interest in Attheraces Holdings Limited, which was previously a joint venture. This was accounted for as a step acquisition; included within share of profits for the year is a profit on disposal of the previously held equity interest of £8 million and included within disposal of joint venture is the revaluation of the previously held equity interest of £8 million.

The aggregate carrying amount of the investments in joint ventures and associates that are not individually material for the Group is £41 million as at 30 June 2017 (2016: £45 million). The Group's share of any capital commitments and contingent liabilities of associates and joint ventures is shown within the totals in note 25.

### a) Investments in associates

Representing 100% of the Group's investment in Sky Bet:

	2017 £m	2016 £m
Non-current assets	818	759
Current assets	140	146
Current liabilities	(127)	(108)
Non-current liabilities	(884)	(863)
<b>Shareholders' deficit</b>	<b>(53)</b>	<b>(66)</b>
Group's share of shareholders' deficit	(11)	(13)
Consolidation and other adjustments	86	91
<b>Investment in associates</b>	<b>75</b>	<b>78</b>
Revenue	513	372
Loss after tax	(6)	(53)

No dividends were received in either the current or prior year.

### b) Investments in joint ventures

Representing the Group's share of each joint venture:

	2017 £m	2016 £m
Non-current assets	11	13
Current assets	86	83
Current liabilities	(36)	(41)
Non-current liabilities	(126)	(92)
<b>Shareholders' deficit</b>	<b>(65)</b>	<b>(37)</b>
Revenue	114	105
Expense	(95)	(88)
Taxation	(5)	(3)
<b>Share of profit from joint ventures</b>	<b>14</b>	<b>14</b>

## 13. Available-for-sale investments

At 30 June 2017 the Group held £110 million (2016: £71 million) of unlisted investments. These 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 (£12 million) and Molotov (£3 million). Other principal investments include Fubo TV, Dataxu Inc. and Roku Inc.

## Notes to the consolidated financial statements – continued

### 14. 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 2015	(20)	(752)	553	83	59	(29)	(106)
(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>
(Charge) credit to income	(14)	46	4	(20)	21	-	37
Credit to equity	-	-	-	-	6	47	53
Acquisition of subsidiaries	-	(4)	1	1	-	-	(2)
Effect of change in tax rate							
- Income	5	(1)	(1)	(2)	(1)	-	-
- Equity	-	-	-	-	-	1	1
Foreign exchange movements	(1)	(40)	40	(1)	(1)	(1)	(4)
<b>At 30 June 2017</b>	<b>(45)</b>	<b>(760)</b>	<b>740</b>	<b>57</b>	<b>53</b>	<b>(23)</b>	<b>22</b>

Deferred tax assets have been recognised at 30 June 2017 and 30 June 2016 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 £296 million as at 30 June 2017 (2016: £243 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 four-year forecast, which was considered by the Company's Board of Directors, and extrapolated beyond the forecast period as disclosed in note 9. The forecast shows that the Group will continue to benefit from the utilisation of the tax losses beyond the initial four-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 rates enacted or substantively enacted for the relevant periods of reversal are: 19.0% from 1 April 2017 and 17.0% from 1 April 2020 in the UK; 28.1% in Italy; and 27.4% in Germany.

Certain deferred tax assets and liabilities have been offset jurisdiction by jurisdiction:

	2017 £m	2016 £m
Deferred tax assets	302	245
Deferred tax liabilities	(280)	(308)
	<b>22</b>	<b>(63)</b>

#### ii) Unrecognised deferred tax assets

	2017 £m	2016 £m
Tax losses arising from trading (gross 2017: £1,630 million, 2016: £1,548 million)	258	245
Tax losses arising from capital disposals and provisions against investments (gross 2017: £1,383 million, 2016: £1,380 million)	235	262
	<b>493</b>	<b>507</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 2017, a deferred tax asset of £1 million (2016: £1 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 2017, a deferred tax asset of £257 million (2016: £244 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 £256 million (2016: £243 million) with respect to the Group's former investment in KirchPayTV and £1 million (2016: £1 million) with respect to other subsidiaries.

At 30 June 2017, a deferred tax asset of £232 million (2016: £258 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 2017, the Group also has capital losses with a tax value estimated to be £3 million (2016: £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.

## 15. Inventories

	2017 £m	2016 £m
Television programme rights	1,058	940
Set-top boxes and related equipment	36	26
Other inventories	19	24
<b>Current inventory</b>	<b>1,113</b>	<b>990</b>
Non-current programme distribution rights	63	36
<b>Total inventory</b>	<b>1,176</b>	<b>1,026</b>

At 30 June 2017, 75% (2016: 80%) of the television programme rights and 100% (2016: 100%) of set-top boxes and related equipment and other inventories are expected to be recognised in the income statement within 12 months.

Inventories with a carrying value of £3 million (2016: £25 million) were written-down in the year.

## 16. Trade and other receivables

	2017 £m	2016 £m
Gross trade receivables	533	441
Less: provision for impairment of receivables	(120)	(96)
<b>Net trade receivables</b>	<b>413</b>	<b>345</b>
Amounts receivable from joint ventures and associates	14	13
Amounts receivable from other related parties	24	20
Prepayments	498	527
Accrued income	429	332
VAT	2	2
Other receivables	95	110
<b>Current trade and other receivables</b>	<b>1,475</b>	<b>1,349</b>
Prepayments	16	8
Amounts receivable from joint ventures and associates	15	77
Other receivables	10	10
<b>Non-current trade and other receivables</b>	<b>41</b>	<b>95</b>
<b>Total trade and other receivables</b>	<b>1,516</b>	<b>1,444</b>

Included within current trade and other receivables is nil (2016: 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:

	2017 £m	2016 £m
Up to 30 days past due date	57	61
30 to 60 days past due date	10	14
60 to 120 days past due date	8	4
120+ days past due date	5	3
	<b>80</b>	<b>82</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

	2017 £m	2016 £m
Balance at beginning of year	96	70
Amounts utilised	(36)	(42)
Provided during the year	60	68
<b>Balance at end of year</b>	<b>120</b>	<b>96</b>



## Notes to the consolidated financial statements – continued

### 17. Trade and other payables

	2017 £m	2016 £m
Trade payables	1,612	1,421
Amounts owed to joint ventures and associates	9	14
Amounts owed to other related parties	193	181
VAT	168	246
Accruals	1,607	1,375
Deferred income	480	462
Other payables	234	203
<b>Current trade and other payables</b>	<b>4,303</b>	<b>3,902</b>
Trade payables	44	34
Amounts owed to other related parties	-	1
Deferred income	3	7
Other payables	40	39
<b>Non-current trade and other payables</b>	<b>87</b>	<b>81</b>
<b>Total trade and other payables</b>	<b>4,390</b>	<b>3,983</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.

### 18. Provisions

	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 1 July 2016 £m	Reclassified during the year £m	Provided (released) during the year £m	Utilised during the year £m	Foreign exchange movement £m	At 30 June 2017 £m
<b>Current liabilities</b>											
Restructuring provision <sup>1</sup>	21	4	20	(17)	1	29	-	3	(19)	-	13
Customer-related provisions <sup>2</sup>	33	-	47	(15)	-	65	-	-	(27)	-	38
Other provisions <sup>3</sup>	49	13	47	(23)	1	87	4	17	(54)	2	56
	<b>103</b>	<b>17</b>	<b>114</b>	<b>(55)</b>	<b>2</b>	<b>181</b>	<b>4</b>	<b>20</b>	<b>(100)</b>	<b>2</b>	<b>107</b>
<b>Non-current liabilities</b>											
Other provisions	51	(17)	32	(10)	5	61	(4)	22	(32)	2	49
Employee benefit obligations <sup>4</sup>	26	-	3	(1)	5	33	-	(1)	(1)	3	34
	<b>77</b>	<b>(17)</b>	<b>35</b>	<b>(11)</b>	<b>10</b>	<b>94</b>	<b>(4)</b>	<b>21</b>	<b>(33)</b>	<b>5</b>	<b>83</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 2018.

4 In 2015, the Group acquired employee benefit obligations as part of its acquisitions of Sky Deutschland and Sky Italia. These obligations are described further below.

#### Employee benefit obligations

	At 1 July 2015 £m	Pension payments £m	Actuarial losses £m	Foreign exchange movement £m	At 30 June 2016 £m	Pension payments £m	Actuarial gains £m	Foreign exchange movement £m	At 30 June 2017 £m
Sky Deutschland defined benefit obligations	10	-	2	2	14	-	(1)	1	14
Sky Italia employee benefit obligations	16	(1)	1	3	19	(1)	-	2	20
	<b>26</b>	<b>(1)</b>	<b>3</b>	<b>5</b>	<b>33</b>	<b>(1)</b>	<b>(1)</b>	<b>3</b>	<b>34</b>

### 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 2017 was £14 million (2016: £14 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 1.95% (2016: 1.50%);
  - Annual growth rate of 2.00% (2016: 2.00%);
  - Annual salary growth rate of 2.50% (2016: 2.50%); and
  - Annual fluctuation rate employees of 7.00% (2016: 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 21 years (2016: 22 years) as of the balance sheet date.

Expected pension payments in the year to 30 June 2018 are less than £1 million (2016: 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 2017 was £20 million (2016: £19 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% (2016: 0.01%);
  - Annual inflation rate of 1.20% (2016: 0.40%);
  - Annual revaluation rate of 2.40% (2016: 1.80%);
  - Annual fluctuation rate employees of 3.74% (2016: 5.40%); and
  - Annual mortality rate of 0.43% (2016: 0.11%).

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 15 years (2016: 17 years) as of the balance sheet date.

Expected pension payments in the year to 30 June 2018 are £2 million (2016: £1 million).

# Notes to the consolidated financial statements – continued

## 19. Borrowings

	2017 £m	2016 £m
<b>Current borrowings</b>		
Loan Notes	-	6
Obligations under finance leases <sup>(i)</sup>	3	25
£400 million of 5.750% Guaranteed Notes repayable in October 2017 <sup>(i)</sup>	398	-
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018 <sup>(i)</sup>	573	-
	<b>974</b>	<b>31</b>
<b>Non-current borrowings</b>		
£400 million of 5.750% Guaranteed Notes repayable in October 2017 <sup>(i)</sup>	-	398
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018 <sup>(i)</sup>	-	559
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018 <sup>(i)</sup>	436	435
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019 <sup>(i)</sup>	575	576
€600 million of Guaranteed Floating Rate Notes repayable in April 2020 <sup>(i)</sup>	526	499
£450 million of 2.875% Guaranteed Notes repayable in November 2020 <sup>(i)</sup>	458	470
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021 <sup>(i)</sup>	1,312	1,243
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022 <sup>(i)</sup>	613	597
€850 million of 1.875% Guaranteed Notes repayable in November 2023 <sup>(i)</sup>	744	705
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024 <sup>(i)</sup>	958	933
€500 million of 2.250% Guaranteed Notes repayable in November 2025 <sup>(i)</sup>	437	414
€1,000 million of 2.500% Guaranteed Notes repayable in September 2026 <sup>(i)</sup>	873	828
£300 million of 6.000% Guaranteed Notes repayable in May 2027 <sup>(i)</sup>	297	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>	348	330
US\$350 million of 6.500% Guaranteed Notes repayable in October 2035 <sup>(i)</sup>	266	259
Loan Notes	-	1
Obligations under finance leases <sup>(i)</sup>	67	61
	<b>8,207</b>	<b>8,901</b>

### (i) Guaranteed Notes

At 30 June 2017, 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>		

At 30 June 2017, 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 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>		

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>		

\* 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 prior year and the £300 million of 6.000% Guaranteed Notes maturing in May 2027 have been issued under this Programme.



## Notes to the consolidated financial statements – continued

### 19. Borrowings (continued)

#### (ii) Finance leases

The minimum lease payments under finance leases fall due as follows:

	2017 £m	2016 £m
Within one year	3	25
Between one and five years	14	13
After five years	53	48
<b>Present value of finance lease liabilities</b>	<b>70</b>	<b>86</b>
Future finance charges on finance lease liabilities	90	97
<b>Minimum lease payments of finance lease liabilities</b>	<b>160</b>	<b>183</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 £8 million (2016: £9 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 (2016: £2 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 set-top boxes. During the year repayments of £13 million (2016: £9 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 expired 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 2017, the RCF was undrawn (2016: 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 CP 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 CP Limited have given joint and several guarantees in relation to the outstanding Guaranteed Notes issued by Sky Group Finance plc.

### 20. 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.

	2017				2016			
	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	28	645	-	-	79	1,079	-	-
Cross-currency swaps	120	466	-	-	118	466	-	-
<b>Cash flow hedges</b>								
Cross-currency swaps	544	2,088	-	-	526	2,088	-	-
Forward foreign exchange contracts	48	2,335	(36)	1,340	361	4,095	(12)	539
<b>Net investment hedges</b>								
Cross-currency swaps	-	-	(353)	2,343	-	-	(240)	2,343
<b>Derivatives not in a formal hedge relationship</b>								
Cross-currency swaps	119	522	-	-	100	522	-	-
Forward foreign exchange contracts	2	417	(4)	532	50	818	(43)	702
Interest rate swaps	16	449	(4)	260	-	-	(6)	260
Embedded derivative	-	-	(7)	67	-	-	(8)	86
<b>Total</b>	<b>877</b>	<b>6,922</b>	<b>(404)</b>	<b>4,542</b>	<b>1,234</b>	<b>9,068</b>	<b>(309)</b>	<b>3,930</b>

The maturity of the derivative financial instruments is as follows:

	2017		2016	
	Asset £m	Liability £m	Asset £m	Liability £m
In one year or less	232	(19)	193	(50)
Between one and two years	93	(16)	299	(6)
Between two and five years	147	(63)	349	(36)
In more than five years	405	(306)	393	(217)
<b>Total</b>	<b>877</b>	<b>(404)</b>	<b>1,234</b>	<b>(309)</b>

The fair value of the Group's debt-related derivative portfolio at 30 June 2017 was a £470 million net asset (2016: net asset of £577 million) with notional principal amounts totalling £6,773 million (2016: £6,758 million). This comprised: net assets of £544 million designated as cash flow hedges (2016: net assets of £526 million), net assets of £148 million designated as fair value hedges (2016: net assets of £197 million), net liabilities of £353 million designated as net investment hedges (2016: net liabilities of £240 million) and net assets of £131 million not designated in a formal hedge relationship (2016: net assets of £94 million).

### 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, representing 16% (2016: 23%) 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, representing 31% (2016: 31%) 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 19. During the current year, gains of £76 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 (2016: gains of £398 million).

The Group designated certain cross-currency swaps as net investment hedges, representing 35% (2016: 35%) 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 included in the initial cost or other carrying amount of the non-financial asset or liability on the balance sheet and affect the income statement in the same periods as the related hedge items. 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 £8 million were removed from the hedging reserve and credited to finance costs in the income statement (2016: nil). Gains of £105 million were removed from the hedging reserve and credited to inventories in the balance sheet (2016: gains of £22 million) and gains of £63 million were removed from the hedging reserve and credited to property, plant and equipment in the balance sheet (2016: gains of £14 million). Losses of £3 million were removed from the hedging reserve and debited against intangibles in the balance sheet (2016: nil) and nil was removed from the hedging reserve and debited against prepayments in the balance sheet (2016: losses of £5 million). Gains of less than £1 million were removed from the hedging reserve and credited to revenue in the income statement (2016: gains of £29 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 (2016: £1 million). For cash flow hedges, ineffectiveness of less than £1 million was recognised in the income statement during the current year (2016: less than £1 million). For net investment hedges, ineffectiveness of nil was recognised in the income statement during the current year (2016: 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 2017, there was one instance in which the hedge relationship was not highly effective (2016: one instance).

## Notes to the consolidated financial statements – continued

### 20. Derivatives and other financial instruments (continued)

#### 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 2017</b>								
Quoted bond debt	-	-	-	-	-	(9,111)	(9,111)	(9,701)
Derivative financial instruments	-	-	122	351	-	-	473	473
Trade and other payables	-	-	-	-	-	(3,637)	(3,637)	(3,637)
Provisions	-	-	-	-	-	(160)	(160)	(160)
Obligations under finance leases and other borrowings	-	-	-	-	-	(70)	(70)	(70)
Available-for-sale investments	-	110	-	-	-	-	110	110
Trade and other receivables	-	-	-	-	1,325	-	1,325	1,325
Short-term deposits	300	-	-	-	-	-	300	300
Cash and cash equivalents	-	-	-	-	2,200	-	2,200	2,200
<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

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 2017 and 30 June 2016. 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.

### (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 2017				
<b>Financial assets</b>				
<b>Available-for-sale financial instruments</b>				
Other investments	110	-	-	110
<b>Financial assets at fair value through profit or loss</b>				
Interest rate swaps	44	-	44	-
Cross-currency swaps	783	-	783	-
Forward foreign exchange contracts	50	-	50	-
<b>Total</b>	<b>987</b>	<b>-</b>	<b>877</b>	<b>110</b>
<b>Financial liabilities</b>				
<b>Financial liabilities at fair value through profit or loss</b>				
Interest rate swaps	(4)	-	(4)	-
Cross-currency swaps	(353)	-	(353)	-
Forward foreign exchange contracts	(40)	-	(40)	-
Embedded derivative	(7)	-	(7)	-
<b>Total</b>	<b>(404)</b>	<b>-</b>	<b>(404)</b>	<b>-</b>
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>

#### 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. All 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.



# Notes to the consolidated financial statements – continued

## 21. 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 2017, 80% of borrowings were held at fixed rates after hedging (2016: 80%).

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 2017, the Group had no net US dollar denominated interest rate exposure on its borrowings (2016: none).

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 2017, this amounted to £1 million (2016: £1 million).

At 30 June 2017 and 30 June 2016, 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 2017:

- The Group's profit for the year ended 30 June 2017 would increase or decrease by £39 million (2016: profit for the year would increase or decrease by £34 million).
- Other equity reserves would decrease or increase by £26 million (2016: decrease or increase by £33 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 2017, the split of the Group's aggregate borrowings into their core currencies was US dollar 38%, euros 46% and pounds sterling 16% (2016: US dollar 38%, euros 45% and pounds sterling 17%). At 30 June 2017, 25% of the Group's long-term borrowings, after the impact of derivatives, are denominated in pounds sterling and 75% in euros (2016: 26% in pounds sterling and 74% 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 35% of operating expenses (£4,167 million) were denominated in euros (2016: approximately 31% (£3,461 million)) and approximately 9% of operating expenses (£1,056 million) were denominated in US dollars (2016: approximately 10% (£1,096 million)). In the current year, approximately 37% of revenues (£4,832 million) were denominated in euros (2016: 33% (£3,946 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 (2016: surplus).

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 2017, the Group had purchased forward foreign exchange contracts representing:

- Approximately 87% of US dollar-denominated costs falling due within one year (2016: 95%), and on a declining basis across five-year planning horizon are hedged via:
  - Outstanding commitments to purchase, in aggregate, US\$2,714 million (2016: US\$3,520 million) at an average rate of US\$1.34 to £1.00 (2016: US\$1.53 to £1.00).
  - Outstanding commitments to purchase, in aggregate, US\$1,669 million (2016: US\$2,027 million) at an average rate of US\$1.17 to €1.00 (2016: US\$1.16 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, €760 million (2016: €1,214 million) at an average rate of €1.15 to £1.00 (2016: €1.23 to £1.00).
  - Outstanding commitments to purchase, in aggregate, €444 million (2016: €795 million) at an average rate of €1.15 to £1.00 (2016: €1.12 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, £73 million (2016: £66 million) at an average rate of £0.84 to €1.00 (2016: £0.79 to €1.00).

No forward foreign exchange contracts fall due beyond five years (2016: 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 (2016: 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 £18 million (2016: reducing profit by £9 million), of which losses of £5 million relate to non-cash movements in the valuation of derivatives (2016: losses of £10 million). The same strengthening would have an adverse impact on other equity of £436 million (2016: adverse impact of £584 million).

A 25% weakening in pounds sterling against the US dollar would have the effect of increasing profit by £30 million (2016: increasing profit by £15 million) of which gains of £9 million relate to non-cash movements in the valuation of derivatives (2016: gains of £17 million). The same weakening would have a beneficial impact on other equity of £727 million (2016: beneficial impact of £974 million).

A 25% strengthening in pounds sterling against the euro would have the effect of increasing profit by £75 million (2016: increasing profit by £109 million) of which gains of £80 million relate to non-cash movements in the valuation of derivatives (2016: gains of £104 million). The same strengthening would have a beneficial impact on other equity of £45 million (2016: beneficial impact of £69 million).

A 25% weakening in pounds sterling against the euro would have the effect of decreasing profit by £123 million (2016: decreasing profit by £180 million) of which losses of £133 million relate to non-cash movements in the valuation of derivatives (2016: losses of £174 million). The same weakening would have an adverse impact on other equity of £76 million (2016: adverse impact of £115 million).

A 25% strengthening in the euro against the US dollar would have the effect of increasing profit by £8 million (2016: decrease profit by £4 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 €272 million (2016: €341 million).

A 25% weakening in the euro against the US dollar would have the effect of decreasing profit by £13 million (2016: increasing profit by £7 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 €453 million (2016: €569 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.

# Notes to the consolidated financial statements – continued

## 21. Financial risk management (continued)

### 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 20.

### 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 (2016: £2 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 16.

### 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 2017, this facility was undrawn (30 June 2016: 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 2017, 54% (2016: 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 19, other than trade and other payables, shown in note 17, and provisions, shown in note 18.

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 2017</b>				
<b>Non-derivative financial liabilities</b>				
Bonds – USD	744	558	804	2,186
Bonds – EUR	78	78	2,073	2,671
Bonds – GBP	466	43	566	786
Obligations under finance leases and other borrowings	8	14	23	115
Trade and other payables	3,475	132	20	19
Provisions	102	38	5	15
<b>Net settled derivatives</b>				
Financial assets	(24)	(11)	(16)	-
<b>Gross settled derivatives</b>				
Outflow	2,988	1,565	2,432	4,515
Inflow	(3,257)	(1,697)	(2,639)	(4,868)

	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)

### 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) with positive credit watch and Baa2 (Moody's) with developing outlook, following the non-binding offer from 21st Century Fox. The leverage ratio assessed by Standard and Poor's is Net Debt: EBITDA and the leverage ratio assessed by Moody's is 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 2017, the Net Debt: EBITDA ratio as defined by the terms of the RCF was 2.7:1 (2016: 2.4:1), and the EBITDA to Net Interest Payable ratio was 10.1:1 (2016: 10.4:1).

## 22. Share capital

	2017 £m	2016 £m
<b>Allotted, called-up and fully paid shares of 50p</b> 1,719,017,230 (2016: 1,719,017,230)	<b>860</b>	<b>860</b>

The Company has one class of ordinary shares which carry equal voting rights and no contractual right to receive payment.

### 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.



## Notes to the consolidated financial statements – continued

### 22. Share capital (continued)

The share awards outstanding can be summarised as follows:

	2017 Number of ordinary shares	2016 Number of ordinary shares
Sharesave Scheme options <sup>(i)</sup>	10,067,153	9,212,906
Management LTIP awards <sup>(ii)</sup>	26,796,977	18,939,950
LTIP awards <sup>(iii)</sup>	10,231,050	6,960,425
Management Co-Investment LTIP awards <sup>(iv)</sup>	2,401,177	2,093,612
Co-Investment LTIP awards <sup>(v)</sup>	2,113,684	1,846,610
	<b>51,610,041</b>	<b>39,053,503</b>

#### (i) Sharesave Scheme options

All Sharesave Scheme options outstanding at 30 June 2017 and 30 June 2016 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 2017 and 30 June 2016 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 2017 and 30 June 2016 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 granted from July 2012 onwards, 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.

For awards that vest in 2017, the TSR performance condition was removed during the current year and replaced with operational performance targets. This was treated as a modification to the relevant awards. The fair value of the modified equity settled share options at the time of modification was calculated using methodologies that are consistent with the calculation of the fair value of equity-settled share options granted during the year as explained in the section titled 'Information for awards granted during the year'.

#### (iv) Management Co-Investment LTIP awards

All Management Co-Investment LTIP awards outstanding at 30 June 2017 and 30 June 2016 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 2017 and 30 June 2016 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 movement in share awards outstanding is summarised in the following table:

	Sharesave Scheme		Senior Management Schemes		Total	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at 1 July 2015	8,367,072	6.50	39,794,830	0.00	48,161,902	1.13
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
Outstanding at 30 June 2016	<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>
Granted during the year	5,504,516	6.88	14,153,402	0.00	19,657,918	1.93
Exercised during the year	(2,454,177)	6.22	(1,608,378)	0.00	(4,062,555)	3.75
Forfeited during the year	(2,180,817)	7.58	(842,733)	0.00	(3,023,550)	5.47
Expired during the year	(15,275)	5.80	-	-	(15,275)	5.80
Outstanding at 30 June 2017	<b>10,067,153</b>	<b>7.19</b>	<b>41,542,888</b>	<b>0.00</b>	<b>51,610,041</b>	<b>1.40</b>

The weighted average market price of the Group's shares at the date of exercise for share options exercised during the year was £9.46 (2016: £11.35). For those exercised under the Sharesave Scheme it was £9.93 (2016: £10.77), and for those exercised under the Senior Management Schemes it was £8.76 (2016: £11.40).

The middle-market closing price of the Company's shares at 30 June 2017 was £9.94 (1 July 2016: £8.73).

The following table summarises information about share awards outstanding at 30 June 2017:

	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
Range of exercise prices						
£0.00 - £1.00	-	-	41,542,888	5.7	41,542,888	5.7
£5.00 - £6.00	43,754	0.1	-	-	43,754	0.1
£6.00 - £7.00	5,588,271	3.2	-	-	5,588,271	3.2
£7.00 - £8.00	2,171,995	1.5	-	-	2,171,995	1.5
£8.00 - £9.00	2,263,133	2.4	-	-	2,263,133	2.4
	<b>10,067,153</b>	<b>2.6</b>	<b>41,542,888</b>	<b>5.7</b>	<b>51,610,041</b>	<b>5.1</b>

The following table summarises information about share awards outstanding at 30 June 2016:

	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
Range of exercise prices						
£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 range of exercise prices of the awards outstanding at 30 June 2017 was between nil and £8.17 (2016: nil and £8.17). For those outstanding under the Sharesave Scheme it was between £5.08 and £8.17 (2016: £5.08 and £8.17) and for all awards outstanding under the Senior Management Schemes the exercise price was nil (2016: nil).

## Notes to the consolidated financial statements – continued

### 22. Share capital (continued)

The following table summarises additional information about the awards exercisable at 30 June 2017 and 30 June 2016:

	2017			2016		
	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	117,600	0.1	6.17	103,049	0.1	5.88
Senior Management Schemes	474,940	2.9	0.00	840,248	3.7	0.00
	<b>592,540</b>	<b>2.4</b>	<b>1.23</b>	<b>943,297</b>	<b>3.3</b>	<b>0.64</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 £5.54 (2016: £7.91). 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 £1.19 (2016: £1.71). This was calculated using the Black-Scholes share option pricing model.

The following weighted average assumptions were used in calculating these fair values:

	2017	2016
Share price	£8.35	£10.39
Exercise price	£6.88	£8.17
Expected volatility	21%	18%
Expected life	3.9 years	3.9 years
Expected dividends	3.4%	3.3%
Risk-free interest rate	0.2%	1.1%

#### (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 £7.23 (2016: £9.85). 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:

	2017	2016
Share price	£9.12	£11.14
Exercise price	£0.00	£0.00
Expected volatility	20%	18%
Expected life	3.0 years	2.1 years
Expected dividends	3.3%	3.3%
Risk-free interest rate	0.2%	0.8%

## 23. Shareholders' equity

	2017 £m	2016 £m
Share capital	860	860
Share premium	2,704	2,704
ESOP reserve	(78)	(125)
Hedging reserve	86	257
Other reserves	364	302
Retained earnings	(98)	(551)
	<b>3,838</b>	<b>3,447</b>

### 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 2015	14,805,780	£8.44	125
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>
Share options exercised during the year	(4,062,555)	£11.56	(47)
<b>At 30 June 2017</b>	<b>6,863,924</b>	<b>£11.46</b>	<b>78</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.

### 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 2017 (2016: £190 million). The merger reserve was £125 million as at 30 June 2017 (2016: £125 million). The special reserve was £14 million as at 30 June 2017 (2016: £14 million). The foreign currency translation reserve was £37 million as at 30 June 2017 (2016: £(24) million). Other reserves also includes the accumulated actuarial movement on employee benefit obligations of £(2) million (2016: £(3) million).

### Reconciliation of movements in the foreign currency translation reserve

	2017 £m	2016 £m
At 1 July	(24)	(209)
Net investment hedges	(335)	(897)
Exchange differences on translation of foreign operations	396	1,082
<b>At 30 June</b>	<b>37</b>	<b>(24)</b>



## Notes to the consolidated financial statements – continued

### 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. Sports Internet Group ('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 was transferred to retained earnings. At 30 June 2017, the Group's merger reserve was £125 million (2016: £125 million).

### Transactions with non-controlling interests

During the prior 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) was transferred from non-controlling interests.

## 24. Notes to the consolidated cash flow statement

### Reconciliation of profit before tax to cash generated from operations

	2017 £m	2016 £m
<b>Profit before tax</b>	<b>803</b>	<b>752</b>
Depreciation, impairment and losses (profits) on disposal of property, plant and equipment	366	356
Amortisation, impairment and losses (profits) on disposal of intangible assets	606	637
Share-based payment expense	147	100
Investment Income	(22)	(17)
Finance costs	204	244
Share of results of joint ventures and associates	(21)	(2)
	<b>2,083</b>	<b>2,070</b>
Increase in trade and other receivables	(103)	(204)
Increase in inventories	(176)	(2)
Increase in trade and other payables	278	137
(Decrease) increase in provisions	(89)	83
Increase in derivative financial instruments	261	2
<b>Cash generated from operations</b>	<b>2,254</b>	<b>2,086</b>

## 25. 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 2017 £m	Total at 30 June 2016 £m
Television programme rights	4,119	9,301	1,268	14,688	15,207
Set-top boxes and related equipment	404	7	-	411	470
Third-party payments <sup>1</sup>	275	573	45	893	685
Transponder capacity <sup>2</sup>	219	583	124	926	1,093
Property, plant and equipment	31	10	-	41	51
Intangible assets <sup>3</sup>	38	63	-	101	125
Smartcards <sup>3</sup>	52	154	-	206	272
Other	536	458	145	1,139	1,430
	<b>5,674</b>	<b>11,149</b>	<b>1,582</b>	<b>18,405</b>	<b>19,333</b>

Foreign currency commitments are translated to pounds sterling at the rate prevailing on the balance sheet date.

- 1 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').
- 2 Transponder capacity commitments are in respect of capacity that the Group uses for digital transmissions to both retail subscribers and cable operators.
- 3 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 £30 million (2016: £44 million).

The Group has guarantees in place relating to the Group's borrowings, see note 19. 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.

## 26. Operating lease commitments

The minimum lease rentals to be paid under non-cancellable operating leases at 30 June are as follows:

	2017 £m	2016 £m
Within one year	61	66
Between one and five years	168	156
After five years	206	203
	<b>435</b>	<b>425</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.

## Notes to the consolidated financial statements – continued

The minimum sub-lease rentals to be received under non-cancellable operating sub-leases at 30 June are as follows:

	2017 £m	2016 £m
Within one year	1	1
	1	1

Sub-lease rentals primarily relate to property leases.

### 27. 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:

	2017 £m	2016 £m
Supply of goods or services by the Group	41	45
Purchases of goods or services by the Group	(413)	(398)
Amounts owed to the Group	24	20
Amounts owed by the Group	(193)	(182)

At 30 June 2017 the Group had expenditure commitments of £359 million in relation to transactions with related parties (2016: £407 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.

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.

On 15 December 2016, the Company entered into a co-operation agreement with 21st Century Fox pursuant to which the parties have agreed to provide each other with information and assistance for the purposes of obtaining all merger control and regulatory clearances and authorisations in relation to the Offer and the preparation of the document to be sent to the Company's shareholders in relation to the Scheme.

#### 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.

	2017 £m	2016 £m
Supply of services by the Group	47	62
Purchases of goods or services by the Group	(52)	(52)
Amounts owed by joint ventures and associates to the Group	29	90
Amounts owed to joint ventures and associates by the Group	(9)	(14)

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 £16 million (2016: £77 million) relating to loan funding. These loans bear interest at rates of between 1.50% and 2.00% (2016: 8.20%). The maximum amount of loan funding outstanding in total from joint ventures and associates during the year was £100 million (2016: £77 million). Sky Bet repaid £83 million pursuant to an outstanding loan balance.

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 2017 was £13 million (2016: £34 million).

During the year, US\$19 million (2016: US\$27 million) was received from the joint venture upon maturity of forward exchange contracts, and US\$37 million (2016: US\$19 million) was paid to the joint venture upon maturity of forward exchange contracts.

During the year, £26 million (2016: £12 million) was received from the joint venture upon maturity of forward exchange contracts, and £21 million (2016: £26 million) was paid to the joint venture upon maturity of forward exchange contracts.

During the year, €8 million (2016: €11 million) was received from the joint venture upon maturity of forward exchange contracts and nil (2016: nil) was paid to the joint venture upon maturity of forward exchange contracts.

At 30 June 2017 the Group had minimum expenditure commitments of £1 million (2016: £3 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 2017, there were 11 (2016: 11) members of key management all of whom were Directors of the Company. Key management compensation is disclosed in note 5b.



# Notes to the consolidated financial statements – continued

## 28. 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<sup>16</sup>

Blast! Films Limited<sup>15</sup>

British Sky Broadcasting Limited

Ciel Bleu 6 Limited

Cymru International Limited

Diagonal View Limited<sup>6</sup>

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 Limited

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 Limited

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>

True North Productions Limited<sup>13</sup>

Una Tickets Limited

Virtuous Systems Limited

10th Floor, The Met Building, 22 Percy Street, London W1T 2BU

Znak & Co Limited

Unit 100 Highgate Studios, 53-79 Highgate Road, London NW5 1TL

Blast! Films – Hunger Limited<sup>15</sup>

Blast! Films – One Day Limited<sup>15</sup>

Millbank Tower, 21-24 Millbank, London SW1P 4QP

Attheraces Holdings Limited<sup>4,17</sup>

Attheraces Limited<sup>17</sup>

Attheraces (UK) Ltd<sup>17</sup>

Go Racing Ltd<sup>9,17</sup>

##### 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 Service S.r.l.<sup>2</sup>

Telepiù S.r.l.<sup>2</sup>

Vision Distribution SpA<sup>13</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>

Wild West Alaska, LLC<sup>2,9</sup>

4800 Old Kingston Pike, Suite 2200, Knoxville, TN 37919 PhotoOps, LLC <sup>2,9</sup>		3 Park Square East, Leeds, LS1 2NE Pitch Music Limited <sup>6</sup>	19.98%
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>		76 Charlotte Street, London W1T 4QS Popcorn Digital Limited <sup>19</sup>	42.50%
1801 Century Park East, #2160, Los Angeles CA 90067 Znak & Co LLC <sup>2,14</sup>		St Albans House, 57-59 Haymarket, London SW1Y 4QX Odeon and Sky Filmworks Limited <sup>9</sup>	50.00%
<b>Incorporated in other overseas countries</b>		10-14 Accommodation Road, London NW11 8ED Sugar Films Limited	24.90%
Austria – Handelskai 92, 1200 Wien Sky Österreich Fernsehen GmbH Sky Österreich Verwaltung GmbH		Manning House 1st Floor, 22 Carlisle Place, London SW1P 1JA Thinkbox TV Limited <sup>9</sup>	20.00%
Belgium – Boulevard Charlemagne 1, 1041 Brussels Sky Channel SA		15 Canada Square, Canary Wharf, London E14 5GL Venture 2009 Limited	50.00%
Hong Kong – Level 54, Hopewell Centre, 183 Queen’s Road East Sky Manufacturing Services Limited		<b>Incorporated in other overseas countries</b>	<b>Shareholding</b>
Ireland – Fifth Floor, One Burlington Plaza, Burlington Road, Dublin 4 Sky Ireland Limited		Channel Islands – 1 Waverley Place, Union Street, St Helier, Jersey JE1 1SG Cyan Blue Topco Limited <sup>5</sup>	20.06%
Switzerland Rue du Puits-Godet 10, Neuchâtel Homedia SA		USA – 874 Walker Rd, Suite C, Dover, DE 19904 Talos Films, LLC <sup>2,8</sup>	Membership interest (25.00%)
Rue du Puits-Godet 12, 2000 Neuchâtel Segevod Sàrl		UAE – PO Box 77845, Abu Dhabi Sky News Arabia FZ-LLC	50.00%
Stockerhof, Dreikönigstrasse 31A, CH8002 Zürich Sky International AG			
<b>Joint ventures and associates:</b>			
<b>Incorporated in the UK</b>	<b>Shareholding</b>		
1 Queen Caroline Street, London, W6 9YN AETN UK	50.00%		
36 Cardiff Road, Llandaff, Cardiff CF5 2DR Avanti Media Group Limited	25.00%		
Avanti Media Ltd	25.00%		
Welsh Hills Works Ltd	25.00%		
Pop Factory Events Ltd	25.00%		
Cyhoeddiadau A3 Publishing Ltd	25.00%		
15 Bedford Street, London WC2E 9HE Bolt Pro Tem Limited <sup>6</sup>	33.33%		
1st Floor Suite, 181b Kensington High Street, London W8 6SH Chrysalis Vision Limited <sup>18</sup>	24.90%		
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%		
Millbank Tower, 21-24 Millbank, London SW1P 4QP GBI Racing Ltd <sup>9</sup>	25.21%		
6th Floor, One London Wall, London EC2Y 5EB Internet Matters Limited <sup>1,6</sup>	25.00%		
17-19 Hawley Crescent, Camden, London NW1 8TT Nickelodeon UK Limited <sup>8</sup> Paramount UK Partnership <sup>2,8,10</sup>	40.00% 25.00%		

- 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 67.50% of the issued share capital of this entity.
- 15 Sky owns 55.00% of the issued share capital of this entity.
- 16 This entity has an accounting reference date of 23 June.
- 17 Sky owns 50.41% of the issued share capital of this entity.
- 18 This entity has an accounting reference date of 28 February.
- 19 This entity has an accounting reference date of 30 November.

The following companies are exempt from the requirements relating to the audit of individual accounts for the year/period ended 30 June 2017 by virtue of section 479A of the Companies Act 2006: British Sky Broadcasting Group Limited (09256967), Kidsprog Limited (02767224), Parthenon Media Group Limited (06944197), Picnic Limited (05348872), Sky Finance Europe Limited (09446689), Sky Holdings Limited (05585009), Sky IP International Limited (07245844), Sky Operational Finance Limited (02906994) and Sky Television Limited (01518707).

## Notes to the consolidated financial statements – continued

### 29. Sky plc company only financial statements

#### Company Balance Sheet

as at 30 June 2017

	Notes	2017 £m	2016 £m
<b>Non-current assets</b>			
Investments in subsidiaries	C	9,531	9,523
Other receivables	E	5	5
Derivative financial assets	H	599	799
Deferred tax assets	D	9	-
		<b>10,144</b>	<b>10,327</b>
<b>Current assets</b>			
Other receivables	E	6,126	9,020
Cash and cash equivalents		1	-
Derivative financial assets	H	203	-
		<b>6,330</b>	<b>9,020</b>
<b>Total assets</b>		<b>16,474</b>	<b>19,347</b>
<b>Current liabilities</b>			
Borrowings	F	573	-
Other payables	G	108	3,431
Derivative financial liabilities	H	3	-
		<b>684</b>	<b>3,431</b>
<b>Non-current liabilities</b>			
Borrowings	F	7,874	8,182
Derivative financial liabilities	H	183	133
		<b>8,057</b>	<b>8,315</b>
<b>Total liabilities</b>		<b>8,741</b>	<b>11,746</b>
Share capital	J	860	860
Share premium	J	2,704	2,704
Reserves		4,169	4,037
<b>Total equity attributable to equity shareholders</b>		<b>7,733</b>	<b>7,601</b>
<b>Total liabilities and shareholders' equity</b>		<b>16,474</b>	<b>19,347</b>

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

The Company's profit for the year was £386 million (2016: £799 million).

These financial statements of Sky plc, registered number 02247735, have been approved by the Board of Directors on 26 July 2017 and were signed on its behalf by:

**Jeremy Darroch**  
Group Chief Executive Officer

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

## Company Cash Flow Statement

for the year ended 30 June 2017

	Notes	2017 £m	2016 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	K	-	-
<b>Net cash from operating activities</b>		-	-
<b>Cash flows from financing activities</b>			
Proceeds from the exercise of share options		15	10
Loan to subsidiaries		(14)	(10)
<b>Net cash from financing activities</b>		1	-
<b>Net increase in cash and cash equivalents</b>		1	-
Cash and cash equivalents at the beginning of the year		-	-
<b>Cash and cash equivalents at the end of the year</b>		1	-

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

## Company Statement of Changes in Equity

for the year ended 30 June 2017

	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 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>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</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>
Profit for the year	-	-	-	-	-	-	-	386	386
Recognition and transfer of cash flow hedges	-	-	-	-	-	-	(48)	-	(48)
Tax on items taken directly to other comprehensive income	-	-	-	-	-	-	8	-	8
<b>Total comprehensive (loss) income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(40)</b>	<b>386</b>	<b>346</b>
Share-based payment	-	-	-	-	-	47	-	97	144
Dividends	-	-	-	-	-	-	-	(358)	(358)
<b>At 30 June 2017</b>	<b>860</b>	<b>2,704</b>	<b>14</b>	<b>190</b>	<b>844</b>	<b>(78)</b>	<b>(70)</b>	<b>3,269</b>	<b>7,733</b>

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

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. In accordance with the exemption allowed by Section 408(3) of the Companies Act 2006, the Company has not presented its own income statement or statement of comprehensive income.

#### ii) 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. Employees

#### Employee benefits

The Company had no employees (2016: 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 50 to 69.



## Notes to the consolidated financial statements – continued

### 29. Sky plc company only financial statements (continued)

#### C. Investments in subsidiaries

	£m
<b>Cost</b>	
At 1 July 2015	10,522
Additions	6
<b>At 30 June 2016</b>	<b>10,528</b>
Additions	8
<b>At 30 June 2017</b>	<b>10,536</b>
<b>Provision</b>	
At 1 July 2015, 30 June 2016 and 30 June 2017	(1,005)
<b>Carrying amounts</b>	
At 1 July 2015	9,517
At 30 June 2016	9,523
<b>At 30 June 2017</b>	<b>9,531</b>

See note 28 for a list of the Company's investments.

#### D. Deferred tax

##### Recognised deferred tax assets

	Financial instruments temporary differences £m
At 1 July 2015	1
Charge to income	(1)
<b>At 30 June 2016</b>	<b>–</b>
Credit to income	1
Credit to other comprehensive income	8
<b>At 30 June 2017</b>	<b>9</b>

At 30 June 2017 a deferred tax asset of £208 million (2016: £232 million) has not been recognised in respect of gross capital losses of £1,223 million (2016: £1,223 million) related to the Group's holding in KirchPayTV, on the basis that utilisation of these temporary differences is not probable. At 30 June 2017, the Company has also not recognised a deferred tax asset of £1 million (2016: £1 million) relating to gross capital losses and provisions of £5 million (2016: £5 million) in respect of football club investments, on the basis that it is not probable that they will be utilised.

#### E. Other receivables

	2017 £m	2016 £m
Amounts receivable from subsidiaries	6,121	9,018
Prepayments and other receivables	5	2
<b>Current other receivables</b>	<b>6,126</b>	<b>9,020</b>
Non-current prepayment	5	5
<b>Total other receivables</b>	<b>6,131</b>	<b>9,025</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 €850 million and €126 million to Sky Operational Finance Limited. These loans bear interest at a rate of 1.875% and 2.940% respectively, and are repayable on demand.

On 24 November 2014, the Company made loans of £200 million and £450 million to Sky Operational Finance Limited. These loans bore interest at a rate of 4.000% and LIBOR plus 1.230% respectively. Both loans were repaid during the year.

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 paid the same annual effective interest rate to the Company. This loan was repaid by Sky Operational Finance Limited during the year.

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 paid the same annual effective interest rate to the Company. This loan was repaid by Sky Operational Finance Limited during the year.

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.

## F. Borrowings

	2017 £m	2016 £m
<b>Current borrowings</b>		
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018	573	-
	<b>573</b>	<b>-</b>
<b>Non-current borrowings</b>		
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018	-	559
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	436	435
US\$750 million of 2.625% Guaranteed Notes repayable in September 2019	575	576
€600 million of Guaranteed Floating Rate Notes repayable in April 2020	526	499
£450 million of 2.875% Guaranteed Notes repayable in November 2020	458	470
€1,500 million of 1.500% Guaranteed Notes repayable in September 2021	1,312	1,243
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022	613	597
€850 million of 1.875% Guaranteed Notes repayable in November 2023	744	705
US\$1,250 million of 3.750% Guaranteed Notes repayable in September 2024	958	933
€500 million of 2.250% Guaranteed Notes repayable in November 2025	437	414
€1,000 million of 2.500% Guaranteed Notes repayable in September 2026	873	828
£300 million of 6.000% Guaranteed Notes repayable in May 2027	297	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	348	330
	<b>7,874</b>	<b>8,182</b>

At 30 June 2017 and 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>		

## Notes to the consolidated financial statements – continued

### 29. Sky plc company only financial statements (continued)

#### G. Other payables

	2017 £m	2016 £m
<b>Other payables</b>		
Amounts owed to subsidiary undertakings	–	3,325
Accruals	108	106
	<b>108</b>	<b>3,431</b>

Amounts payable to subsidiaries in the prior year were non-interest bearing and repayable on demand. The balance comprised £2,164 million of non-interest bearing loans and £1,161 million of other payables. The Directors consider that the carrying amount of other payables approximates their fair values.

#### H. 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 2017 and 30 June 2016:

	2017 Carrying value £m	2017 Fair value £m	2016 Carrying value £m	2016 Fair value £m
<b>Financial assets and liabilities held or issued to finance the Company's operations</b>				
Quoted bond debt	(8,447)	(8,960)	(8,182)	(8,682)
Derivative financial instruments	616	616	666	666
Other payables and receivables	6,013	6,013	5,587	5,587

The fair values of financial assets and financial liabilities are determined as detailed in note 20 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.

	2017				2016			
	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	25	594	–	–	74	1,029	–	–
Cross-currency swaps	120	466	–	–	120	466	–	–
<b>Cash flow hedges</b>								
Cross-currency swaps	469	1,924	–	–	445	1,924	–	–
<b>Derivatives not in a formal hedge relationship</b>								
Interest rate swaps	19	310	(7)	499	5	50	(12)	310
Cross-currency swaps	169	629	(179)	1,483	155	629	(121)	1,483
<b>Total</b>	<b>802</b>	<b>3,923</b>	<b>(186)</b>	<b>1,982</b>	<b>799</b>	<b>4,098</b>	<b>(133)</b>	<b>1,793</b>

Note 20 provides further details of the Group's derivative and other financial instruments.

The maturity of the derivative financial instruments is shown below:

	2017		2016	
	Asset £m	Liability £m	Asset £m	Liability £m
In one year or less	203	(3)	–	–
Between one and two years	79	(4)	198	(5)
Between two and five years	140	(47)	233	(30)
In more than five years	380	(132)	368	(98)
<b>Total</b>	<b>802</b>	<b>(186)</b>	<b>799</b>	<b>(133)</b>

## I. 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 £5 million (2016: adverse impact of £10 million), relating to non-cash movements in the valuation of derivatives. The same strengthening would have an adverse impact on other equity of £40 million (2016: adverse impact of £68 million).

A 25% weakening in pounds sterling against the US dollar would have a beneficial impact on profit of £9 million (2016: beneficial impact of £17 million), relating to non-cash movements in the valuation of derivatives. The same weakening would have a beneficial impact on other equity of £67 million (2016: beneficial impact of £113 million).

A 25% strengthening in pounds sterling against the euro would have a beneficial impact on profit by £27 million (2016: beneficial impact of £38 million), relating to non-cash movements in the valuations of derivatives. The same strengthening would have an adverse impact on other equity of £12 million (2016: adverse impact of £16 million).

A 25% weakening in pounds sterling against the euro would have an adverse impact on profit of £45 million (2016: adverse impact of £63 million), relating to non-cash movements in the valuation of derivatives. The same weakening would have a beneficial impact on other equity of £19 million (2016: beneficial impact of £27 million).

#### 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 2017, and if all other variables were held constant, the Company's profit for the year ended 30 June 2017 would decrease or increase by £6 million (2016: decrease or increase by £10 million) and other equity reserves would decrease or increase by £22 million (2016: decrease or increase by £26 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.



## Notes to the consolidated financial statements – continued

### 29. Sky plc company only financial statements (continued)

#### I. Financial risk management (continued)

##### Liquidity risk

See note 21 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 2017</b>				
<b>Non-derivative financial liabilities</b>				
Bonds – USD	726	541	751	1,679
Bonds – GBP	43	43	566	786
Bonds – EUR	78	78	2,073	2,671
Other payables	108	-	-	-
<b>Net settled derivatives</b>				
Financial assets	(21)	(11)	(16)	-
<b>Gross settled derivatives</b>				
Outflow	537	506	1,273	3,406
Inflow	(774)	(600)	(1,402)	(3,760)
<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)

At 30 June 2017, the Company had an undrawn £1 billion RCF with a maturity date of 30 November 2021. See note 19 for further information.

## J. 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 22 and 23.

For details of dividends, see note 8.

### Capital reserve

This reserve arose from the surplus on the transfer of trade and assets to a subsidiary undertaking.

## K. Reconciliation of profit before tax to cash generated from operations

	2017 £m	2016 £m
Profit before tax	414	830
Dividend income	(267)	(671)
Net finance costs	15	9
Increase in other receivables	(162)	(168)
Cash generated from operations	-	-

## L. 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 and Sky Italia Srl 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 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 back-to-back guarantees in favour of 21st Century Fox, Inc. in relation to UEFA Europa 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 provided a parent company guarantee to Apple Distribution International in respect of all the payment obligations of Sky UK Limited under an iPhone distribution agreement.

The Company has guarantees in place relating to the Group's borrowings, see note 19, and in relation to audit exemptions, see note 28.

## M. Transactions with related parties and major shareholders

	2017 £m	2016 £m
Supply of services to subsidiaries	222	219
Interest received from funding to subsidiaries	177	172
Interest on other loans and receivables with related parties	-	2
Amounts owed by subsidiaries	6,121	9,018
Amounts owed to subsidiaries	-	(3,325)

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 £112 million and €103 million (2016: £106 million and €108 million) on behalf of the Company during the year. Interest is earned on certain loans to subsidiaries.

The Company recognised £222 million (2016: £219 million) for licensing the Sky brand name to subsidiaries. The Company recognised dividends during the year from subsidiaries totalling £267 million (2016: £671 million).

The Group's related-party transactions are disclosed in note 27.

# 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 2017 £m	Year ended 30 June 2016 £m	Year ended 30 June 2015 £m	Year ended 30 June 2014 £m	Year ended 30 June 2013 £m
Consolidated Income Statement					
<b>Continuing operations</b>					
Revenue <sup>1</sup>	<b>12,916</b>	<b>11,965</b>	<b>9,989</b>	<b>7,450</b>	<b>7,082</b>
Operating expense <sup>2</sup>	(11,952)	(10,988)	(9,017)	(6,346)	(5,835)
<b>Operating profit</b>	<b>964</b>	<b>977</b>	<b>972</b>	<b>1,104</b>	<b>1,247</b>
Share of results of joint ventures and associates	21	2	28	35	46
Investment income	22	17	8	26	28
Finance costs	(204)	(244)	(283)	(140)	(108)
Profit on disposal of available-for-sale investment	-	-	492	-	-
Profit on disposal of associate	-	-	299	-	-
<b>Profit before tax</b>	<b>803</b>	<b>752</b>	<b>1,516</b>	<b>1,025</b>	<b>1,213</b>
Taxation	(112)	(89)	(184)	(205)	(267)
<b>Profit for the year from continuing operations</b>	<b>691</b>	<b>663</b>	<b>1,332</b>	<b>820</b>	<b>946</b>
<b>Discontinued operations</b>					
Profit for the year from discontinued operations	-	-	620	45	33
<b>Profit for the year</b>	<b>691</b>	<b>663</b>	<b>1,952</b>	<b>865</b>	<b>979</b>
Profit (loss) for the year attributable to:					
Equity shareholders of the parent company	695	666	1,957	865	979
Non-controlling interests	(4)	(3)	(5)	-	-
Net (loss) profit recognised directly in equity	(109)	378	(625)	73	129
<b>Total comprehensive income for the year</b>	<b>582</b>	<b>1,041</b>	<b>1,327</b>	<b>938</b>	<b>1,108</b>
Earnings per share from profit for the year (in pence)					
Basic	40.6p	39.0p	115.8p	55.4p	60.7p
Diluted	40.0p	38.7p	114.4p	54.9p	59.7p
Dividends per share (in pence)	-	33.5p	32.8p	32.0p	30.0p
	30 June 2017 £m	30 June 2016 £m	30 June 2015 £m	30 June 2014 £m	30 June 2013 £m
Consolidated Balance Sheet					
Non-current assets	13,104	12,708	10,799	3,876	3,776
Current assets	5,334	4,702	4,559	2,573	2,569
Total assets	18,438	17,410	15,358	6,449	6,345
Current liabilities	(5,550)	(4,326)	(4,204)	(2,519)	(2,317)
Non-current liabilities	(9,041)	(9,643)	(7,930)	(2,858)	(3,016)
Net assets	3,847	3,441	3,224	1,072	1,012
Number of shares in issue (in millions)	1,719	1,719	1,719	1,563	1,594

	30 June 2017 ('000)	30 June 2016 ('000)	30 June 2015 ('000)	30 June 2014 ('000)	30 June 2013 ('000)
Statistics					
<b>Products</b>					
UK and Ireland	41,958	40,373	38,036	34,775	31,634
Germany and Austria	8,774	8,042	7,133	-	-
Italy	8,978	8,640	8,614	-	-
<b>Total paid-for subscription products</b>	<b>59,710</b>	<b>57,055</b>	<b>53,783</b>	<b>34,775</b>	<b>31,634</b>
<b>Customers</b>					
UK and Ireland	12,726	12,446	12,001	11,495	11,153
Germany and Austria	4,991	4,626	4,280	-	-
Italy	4,783	4,742	4,725	-	-
Retail customers	22,500	21,814	21,006	11,495	11,153
UK and Ireland	3,492	3,923	4,028	4,041	3,677
Germany and Austria	129	144	146	-	-
Italy	-	-	-	-	-
Wholesale customers <sup>3</sup>	3,621	4,067	4,174	4,041	3,677
<b>Total customers</b>	<b>26,121</b>	<b>25,881</b>	<b>25,180</b>	<b>15,536</b>	<b>14,830</b>
<b>Churn</b>					
UK and Ireland	11.5%	11.2%	9.8%	10.9%	10.7%
Germany and Austria	12.6%	9.9%	8.6%	-	-
Italy	9.1%	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 2017 are costs of £140 million relating to corporate restructuring and efficiency programmes, costs of £50 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group, costs of £40 million relating to share-based payments incurred as a result of the 21st Century Fox Offer, costs of £16 million relating to advisory fees associated with the 21st Century Fox Offer and costs of £258 million relating to the amortisation of acquired intangibles.

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.

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.



# Group financial record – Unaudited supplemental information – continued

## 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.

#### Available-for-sale investment

During fiscal 2015, the Group disposed of its remaining investment in ITV.

#### Business combinations and profit on disposal of associate

During fiscal 2015, the Group completed the acquisitions of Sky Deutschland and Sky Italia. The results of these acquisitions were consolidated from the date on which control passed to the Group (12 November 2014). As part of the consideration for the purchase of Sky Italia the Group disposed of its shareholding in the National Geographic channel.

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 21 to the consolidated financial statements.

# Non-GAAP measures

## Unaudited supplemental information

### Consolidated Income Statement – reconciliation of statutory and adjusted numbers

	Notes	2017		
		Statutory £m	Adjusting Items £m	Adjusted £m
<b>Revenue</b>				
Subscription		10,869	-	10,869
Transactional		224	-	224
Programme and Channel Sales		778	-	778
Advertising		826	-	826
Other		219	-	219
		12,916	-	12,916
<b>Operating expense</b>				
Programming	A	(6,200)	21	(6,179)
Direct network costs		(964)	-	(964)
Sales, general and administration	B	(4,788)	483	(4,305)
		(11,952)	504	(11,448)
<b>EBITDA</b>		1,936	203	2,139
<b>Operating profit</b>		964	504	1,468
Share of results of joint ventures and associates	C	21	5	26
Investment income	D	22	(8)	14
Finance costs	E	(204)	(41)	(245)
<b>Profit before tax</b>		803	460	1,263
Taxation	F	(112)	(103)	(215)
<b>Profit for the year</b>		691	357	1,048
Loss attributable to non-controlling interests		4	(2)	2
Profit attributable to equity shareholders of the parent company		695	355	1,050
<b>Earnings per share (basic)</b>		40.6p	20.8p	61.4p

Notes: explanation of adjusting items for the year ended 30 June 2017

- A Costs of £20 million relating to corporate restructuring and efficiency programmes and costs of £1 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group.
- B Costs of £120 million relating to corporate restructuring and efficiency programmes (including depreciation and amortisation of £13 million), costs of £49 million relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group (including depreciation and amortisation of £30 million), costs of £40 million relating to share-based payments incurred as a result of the 21st Century Fox Offer, costs of £16 million relating to advisory fees associated with the 21st Century Fox Offer, and amortisation of acquired intangible assets of £258 million.
- C Amortisation of acquired intangible assets of £13 million and profit on disposal of joint venture of £8 million.
- D Interest income of £8 million on credit received following an Ofcom determination.
- E Credit of £41 million relating to the remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness.
- F Tax adjusting items and the tax effect of the above items.

Corporate restructuring and efficiency programmes include costs associated with specific programmes that the Group has established in order to achieve reductions in ongoing operating expense. Costs of these programmes include redundancy and relocation costs, consultancy costs, contract exit costs and the impairment or accelerated depreciation of assets that the Group no longer expects to use for their original estimated useful economic life.

## Non-GAAP measures – Unaudited supplemental information – continued

### Consolidated Income Statement – reconciliation of statutory and adjusted numbers (continued)

	Notes	2016	
		Statutory £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)	(5,163)
Direct network costs		(939)	(939)
Sales, general and administration	B	(4,832)	(4,305)
		(10,988)	(10,407)
<b>EBITDA</b>		1,970	2,178
<b>Operating profit</b>		977	1,558
Share of results of joint ventures and associates	C	2	9
Investment income		17	17
Finance costs	D	(244)	(238)
<b>Profit before tax</b>		752	1,346
Taxation	E	(89)	(269)
<b>Profit for the year</b>		663	1,077
Loss attributable to non-controlling interests		3	-
Profit attributable to equity shareholders of the parent company		666	1,077
<b>Earnings per share (basic)</b>		39.0p	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 adjusting items and the tax effect of the above items.

### Reconciliation of cash generated from operations to adjusted free cash flow

for the year ended 30 June 2017

	Note	2017 £m	2016 £m
<b>Cash generated from operations</b>	24	<b>2,254</b>	<b>2,086</b>
Interest received		15	10
Taxation paid		(163)	(189)
Dividends received from joint ventures and associates		20	20
Funding to joint ventures and associates		(9)	(8)
Loan to joint venture		(14)	-
Purchase of property, plant and equipment		(628)	(542)
Purchase of intangible assets		(546)	(432)
Interest paid		(238)	(231)
<b>Free cash flow</b>		<b>691</b>	<b>714</b>
Cash paid relating to corporate restructuring and efficiency programmes		114	40
Cash paid relating to the integration of Sky Deutschland and Sky Italia in the enlarged Group		15	32
Cash paid relating to advisory fees associated with the 21st Century Fox Offer		9	-
<b>Adjusted free cash flow</b>		<b>829</b>	<b>786</b>

Where appropriate amounts above are shown net of applicable corporation tax.

The financial performance of the Group is presented using a variety of alternative performance measures. These measures are not defined by IFRS and therefore may not be directly comparable with similarly titled alternative performance measures used elsewhere. These measures should be considered in addition to, and are not intended to be a substitute for, IFRS measures.

#### Adjusted results

In order to provide a measure of underlying performance, management has chosen to present adjusted results for the year which exclude 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. A reconciliation of adjusted results to the closest equivalent statutory measure is provided in the tables above for the current and prior years.

#### Like-for-like

Like-for-like revenue excludes the impact of the 53rd week in the prior year and is on an adjusted, constant currency basis. Like-for-like revenue growth at actual exchange rates is 10% (£12,916 million versus £11,965 million less £174 million).

#### Constant currency

Some of the Group's IFRS and adjusted measures are translated at constant currency exchange rates. Constant currency exchange rates are the average actual exchange rates of the current financial year and are used to eliminate the effects of exchange rate fluctuations in assessing performance. Actual exchange rates are the average actual periodic rates for that financial year. The constant currency exchange rate used for the current year is €1.16:£1. A reconciliation of the adjusted measures at constant currency to the adjusted measures at actual exchange rates is provided below.

£m	12 months to 30 Jun 17	12 months to 30 Jun 16 <i>Like-for-like</i>	Growth <i>Like-for-like</i>	53rd Week <i>Constant currency</i>	Foreign exchange impact	12 months to 30 Jun 16 <i>Actual exchange rates</i>
<b>Adjusted Results</b>						
<b>Revenue</b>	<b>12,916</b>	<b>12,317</b>	<b>+5%</b>	<b>182</b>	<b>(534)</b>	<b>11,965</b>
UK and Ireland	8,600	8,255	+4%	116	-	8,371
Germany and Austria	1,858	1,708	+9%	28	(224)	1,512
Italy	2,458	2,354	+4%	38	(310)	2,082
<b>EBITDA</b>	<b>2,139</b>	<b>2,214</b>	<b>-3%</b>		<b>(36)</b>	<b>2,178</b>
UK and Ireland	1,743	1,910	-9%		-	1,910
Germany and Austria	142	92	+54%		(10)	82
Italy	254	212	+20%		(26)	186
<b>Operating Profit</b>	<b>1,468</b>	<b>1,565</b>	<b>-6%</b>		<b>(7)</b>	<b>1,558</b>
UK and Ireland	1,292	1,504	-14%		-	1,504
Germany and Austria	40	4	+900%		-	4
Italy	136	57	+139%		(7)	50



# Shareholder information

## 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.

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.

Shareholders who have not yet elected to receive shareholder documentation in electronic form can sign up by registering at [www.shareview.co.uk](http://www.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.

## Accessibility

If you would like advice regarding accessibility of this document, please contact the Accessible Customer Service team on +44 (0) 344 241 0333.

## 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 [www.skygroup.sky/corporate](http://www.skygroup.sky/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)

## Annual General Meeting

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

## Auditor

Deloitte LLP  
2 New Street Square  
London  
EC4A 3BZ

## 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.

## Company 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 [www.skygroup.sky/corporate](http://www.skygroup.sky/corporate) where investor and media information can be accessed. This year's Annual Report, together with prior year documents, can be viewed there along with information on dividends, share price and avoiding shareholder fraud.

## 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 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).

An Annual Dividend Confirmation is available for shareholders who have chosen to receive dividends directly into their bank account. The single Annual Dividend Confirmation is usually mailed by the end of November each year, to coincide with the final dividend payment (if applicable).

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.

## Financial calendar

Results for the financial year ending 30 June 2018 will be published in:

October 2017\*  
January 2018\*  
April 2018\*  
July 2018\*

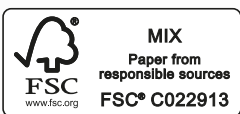
\* Provisional dates

## 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.



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