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## Annual Report 2014

British Sky Broadcasting Group plc  
Registered in England No 02247735

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COMPANIES HOUSE

# Making life better by entertaining and connecting people

We make life better by entertaining and connecting people  
We are part of everyday life for millions of customers and  
we work hard to meet their needs and earn their trust.

We believe in better That means offering a better choice of  
high-quality entertainment for the whole family and using  
technology to put them in control, whenever and wherever they  
want. Our home communications services make it simple, safe and  
reliable for customers to connect to each other and to the world

We make our products affordable so millions can join in We are  
committed to providing exceptional customer service And we are  
always looking for ways to improve in everything that we do

Seeing the bigger picture is fundamental to how we do business  
We are committed to behaving responsibly and doing the right  
thing for the communities where we live and work

Our people are critical to our success We aim to foster a culture  
where they can do their best work, fulfil their potential and achieve  
great things together

We want to build a business that is durable for the long term  
Delivering for our customers, our employees and the wider  
community is how we will create a more valuable business  
for our shareholders and sustain success into the future

**Believe in better.**

## Contents

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For more information about Sky go to [sky.com/corporate](http://sky.com/corporate)

To find out more about our approach to building a sustainable business and our progress in the year go to [sky.com/biggerpicture](http://sky.com/biggerpicture) where you can also download the Seeing the bigger picture Summary Report 2014

## Sky at a glance

### Consumer business

We are Britain and Ireland's leading home entertainment and communications company, providing services to more than 40% of homes

#### Sky TV

Sky gives millions of families a better choice of TV to enjoy on their terms at home or on the go watching live or on demand

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### Content business

We own and operate Britain and Ireland's largest portfolio of pay TV channels across entertainment, sports, movies and 24-hour news

#### Sky Sports

Sky Sports seven channels broadcast a wide range of live and exclusive sport, news and analysis, from football and golf to cricket and tennis

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### Our other businesses

We operate a number of businesses in adjacent sectors that draw on our core strengths in content, innovation and customers

#### Sky Media

Sky Media is our advertising sales house, offering advertisers access to 125 TV channels. Sky Media's portfolio is watched by over 90% of the population each week on TV, online and on the go

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## Financial performance

£7.6bn

Revenue

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## Contribution

We make a significant and growing economic and social contribution to life in Britain and Ireland, directly employing over 25,000 people

£6bn

Sky's contribution to UK GDP

34.8m

Paid-for subscription products

11.5m

Customers

### Sky Broadband

Sky is Britain and Ireland's fastest-growing home communications provider connecting more than 5 million customers with broadband and telephony services

### NOW TV

NOW TV is our over-the-top streaming service providing low-cost low-commitment access to the best of Sky's content

### Sky Entertainment

Sky has four main entertainment channels Sky 1 Sky Living, Sky Atlantic and Sky Arts. These showcase our own UK-commissioned content, alongside the best of the US

### Sky Movies

Sky Movies is Europe's largest in-home movie service with over 800 film titles from the major Hollywood studios and independent distributors

### Sky News

Sky News reaches over 100 million homes on multiple platforms across 118 countries with its combination of breaking news and analysis

### Sky Business

Sky Business provides Sky's TV and WiFi services to a range of commercial businesses, including offices, retail outlets, hotels, and licensed premises

### Sky Bet

Sky Bet offers a range of online betting and gaming services under the Sky Bet, Sky Poker, Sky Vegas and Sky Bingo brands

### Content Distribution

Sky wholesales its channels to third-party pay TV platforms as well as selling a wide range of programming internationally through Sky Vision

£1.3bn

Operating profit

60.0p

EPS

117,000

Total number of UK jobs supported by Sky

£2.7bn

Total annual tax contribution\* to the UK Exchequer

\* From net VAT, corporation taxes and employee income taxes

105,000

Number of young people who participated in Sky Academy initiatives last year

## A year of outstanding progress

2014 has been a year of outstanding progress for Sky. Executing well against a clear and consistent strategy, the Company has delivered strong operational growth and an excellent financial performance in a year of investment.



Nick Ferguson, CBE  
Chairman

Our results show there is very good momentum in Sky's business with strong customer demand for our products and rapid growth in new services such as On Demand and NOW TV. This has been achieved against a challenging backdrop where there has been continued pressure on household budgets and it is testament to the robustness of the strategy and the exemplary way in which management has executed their plans.

This year's results build on a proven track record of delivery. Over the past few years, we have transformed the size and scale of the business more than doubling earnings per share since 2009. This has enabled the Company to return a total of £3.4 billion to shareholders over that five-year period through a combination of share buybacks and dividends.

The Board is confident that Sky is well placed to take advantage of the growth opportunities ahead. The conditional acquisition of 100% of Sky Italia and 57.4% of Sky Deutschland from 21st Century Fox announced on 25 July will enable Sky to build on the strength of the business in Britain and Ireland to create even greater value for shareholders as a wider international business.

As Sky has grown, so has its economic contribution to Britain and Ireland. Sky is the biggest commercial supporter of the UK creative industries, investing more than £2.6 billion this year in high-quality sports, news and entertainment content. As a successful company, Sky contributes £6 billion to UK GDP, supports 117,000 jobs and generates a total of £2.7 billion in tax revenues for the Exchequer.

Sky also makes a considerable social contribution. We took a big step forward this year with the launch of Sky Academy, a groundbreaking set of initiatives to inspire young people and give them the skills and confidence they need to participate more fully in a changing world. Our aim is to create opportunities for up to one million young people to build skills and experience by 2020.

Over the past year, there have been a number of changes to the Board. We were very pleased to welcome Adine Grate, an experienced finance and investment professional, to the Board last July. I would like to thank Danny Rimer for his contribution as Chairman of the Remuneration Committee. He stepped down from this role at the AGM in November and has been succeeded by Tracy Clarke. I would particularly like to thank Andy Higginson, our Senior Independent Director, for his outstanding contribution to the Company in the last ten years. Andy will retire from the Board at the AGM in November.

Finally, in light of the Company's strong performance, the Board proposes a 7% increase in the full-year dividend to 32.0 pence, the tenth consecutive year of growth.

On behalf of the Board, I would like to thank shareholders for their continued support and to extend my thanks to all of my colleagues across Sky for their commitment and their invaluable contribution to another excellent year for the business.

**Mr Sloane**

Commissioned by Sky Atlantic. *Mr Sloane* was a bittersweet romantic comedy from the Director of *Curb Your Enthusiasm* Robert B. Weide and starred Nick Frost and Olivia Colman

# Our business model

## How we create value

We create sustainable value by pursuing broad growth opportunities and achieving competitive advantage through our core strengths and the way we do business

### Our growth opportunities

- Expanding in pay TV and home communications
- Opening up emerging market segments
- Exploiting opportunities in adjacent sectors

We have an attractive market opportunity that is getting bigger and broader

We are expanding in our core business of pay TV and home communications.

We are opening up new emerging areas of the market in the 'pay light' and transactional segments

We are exploiting opportunities in adjacent sectors such as targeted advertising and betting and gaming

### Our strengths

- Delivering great content
- Market-leading innovation
- Focusing on customers

Sky's competitive advantage comes from a unique combination of strengths in three areas

We deliver the best and broadest range of content for the whole family

We harness new technology to give customers the best viewing experience wherever and whenever they want

We combine these with a deep understanding of customer needs and best-in-class customer service

### How we do business

- Investing for the long term
- Driving efficiency
- Seeing the bigger picture
- Investing in people

Because we want to build a business that is durable we invest for the long term

We underpin everything that we do with a rigorous focus on operating efficiency

We make a positive impact on the communities where we live and work. We call this seeing the bigger picture

We invest in our people recognising that their talent and commitment are critical to our success

**A bigger, more profitable business delivering increased returns to shareholders and making a positive impact on society**



# Our strategy

As we mark our 25th anniversary, Sky is performing strongly and our potential for future growth is as exciting as it has ever been. We had a very good year in 2014 with more people choosing Sky and taking more of our products. The business is delivering strong financial results and we enter the new year with good momentum.



Jeremy Darroch  
Chief Executive

We operate in an attractive and dynamic marketplace that is opening up a bigger and broader opportunity one that we are uniquely positioned to take advantage of. In today's connected world, home entertainment and communications are central to people's lives and they are willing to commit an increasing proportion of their household spend on these services. In this environment, our strategy is to deliver market-leading content, innovation and customer service while operating as a responsible business and making a positive impact on society. We believe this approach will allow us to continue to grow and create value for shareholders.

## Our growth opportunities

Sky's willingness to embrace that change and innovate is opening up exciting new opportunities and giving us more ways to grow. We see an expanding opportunity to serve the market broadly through multiple channels and, for the first time, to provide Sky for Everyone – based on multiple platforms and services.

This opportunity for growth lies in three areas:

First and foremost, we see an opportunity to sell more products to more customers by meeting the significant demand that exists for our core TV and home communications products.

Notwithstanding the excellent progress that we have made over the last 25 years, 13 million households in Britain and Ireland have yet to pay for TV and over 5 million of our customers have yet to switch their home communications service to Sky. Our successful transition to a multi-product strategy has enabled us to sell more products to more customers and, with an average of three paid-for products per customer at the end of June 2014, there remains plenty more growth to go for. Our performance in the last year demonstrates that consumers' appetite to take more from Sky remains as strong as ever and this gives us an important platform from which to build.

Second, we see significant additional potential for growth in new segments of the market that we are only just starting to address. NOW TV, our over-the-top streaming service, gives us the chance to unlock new pockets of demand in an emerging pay light sector and extend our reach in Freeview homes – many of whom are looking for an easy and flexible way to enjoy a better TV experience. Our NOW TV Box offers a low-cost, low-commitment way for these households to enjoy Sky's content with a choice of movies, sport and entertainment passes. In addition, we continue to roll out NOW TV to more connected devices, taking advantage of the growth in video consumption over smartphones, tablets and games consoles.

Alongside this, we also have an opportunity to extend the Sky brand into the transactional market by accelerating the move from physical DVDs to digital. This is a market worth an estimated £1.6 billion a year in the UK and while we have been growing our share of the rental part of this market well with Sky Store, the launch this spring of our Buy & Keep service lets us tap into the much larger purchase segment of the market. We see strong potential for growth given our long-standing relationships with the major Studios and the strength of the Sky brand in home entertainment.

# Our strategy

(continued)

*Sky Arts Portrait Artist of the Year presented by Joan Bakewell and Frank Skinner*

Third, we are opening up new growth opportunities in our portfolio of businesses in adjacent sectors. These are businesses where Sky often has a small share today in what are large and valuable addressable markets. This includes Sky Bet, our betting and gaming business, which has delivered sustained double-digit growth in revenue and profit and yet still only has 6% of a £3 billion market. We see another significant opportunity in targeted advertising with the launch this year of Sky AdSmart. Combining the power scale and immediacy of TV advertising with the segmentation and targeting of direct mail and regional advertising, Sky AdSmart opens up a £6 billion market that we have been unable to reach until now.

Taken together these represent a broad opportunity for growth through multiple services and routes to market. Each of these areas is additive and highly complementary – together they offer a route to building a bigger and more profitable business.

## Our strengths

Sky's success in exploiting the growth opportunity that lies ahead rests on our unique combination of strengths in three areas: content, innovation and customers. These are areas in which Sky has developed significant capabilities which are hard to replicate.

In content, we have made huge strides in recent years to increase the range and quality of the programmes we put on screen, right across our channel portfolio. We have developed our suite of entertainment channels, strengthened our relationships with the major movie studios and signed new rights deals in sport to expand our offering. In particular, this year we have increased our investment in original British programming with a focus on comedy and drama. This is because we know that our ability to offer the best and broadest range of content for the whole household is a fundamental advantage in an environment where customers have more choices than ever before.

Sky's ability to innovate across multiple technologies allows us to build on the strength of our content and take our business into new areas. Our focus in the last year has been accelerating the take-up and usage of new connected TV services. Connecting customers' Sky+HD boxes to broadband opens up a whole range of new on-demand services which allow customers to choose how, when and where they watch that content. Services like NOW TV and Sky Store delivered over the internet enable us to extend our business into new areas, reaching customers that may not otherwise have taken Sky and opening up new revenue opportunities. We have also grown our home communications business to become Britain's second-biggest broadband provider.

Our strengths in content and innovation are only relevant because they matter to customers. And it is because we combine them with a deep understanding of customer needs that we are able to bring together home entertainment and communications better than anyone else.

We have established direct, long-term relationships with 11.5 million households across Britain and Ireland. These relationships mean we know what our customers want and enable us to stay focused on providing the services that best meet their needs. The strength of our brand and the capability that we have developed means we can bring products to market swiftly and at scale. And everything we do is supported by best-in-class customer service. As the connected home becomes more established and consumers are faced with an increasing array of choices, service delivery has become a more important differentiator than ever before. Sky's expertise is a source of competitive advantage.

The acquisition of Sky Italia and a 57.4% stake in Sky Deutschland will give us a platform to take the strengths we have developed in the UK and Ireland and apply them across a broader field of opportunity. The enlarged business will have significantly expanded headroom for growth, bringing together best-in-class capabilities and experience from all three businesses to serve customers better, accelerate innovation and grow faster.

## How we do business

Underpinning our strengths in content, innovation and customers is our desire to build a business that is durable for the long term. To achieve sustainable success, we know that how we do business is as important as what we do. This is at the heart of our Believe in Better ethos: a commitment to constant renewal and improvement in everything we do.

Investment in our people is fundamental to the creation of a durable business. At Sky, we support training and development for all of our people and strive to create a culture where they can do their best work and fulfil their potential.

We also understand that we need to be willing to look beyond the delivery of short-term results to consider the impact that we have on the wider communities in which we live and work. We call this seeing the bigger picture.

As a successful company, we make a significant and growing economic and social contribution to Britain and Ireland, supporting thousands of jobs and investing billions in the creative industries and sport. We are committed to behaving responsibly in all that we do and our high ethical, social and environmental standards underpin the decisions that we take every day.

But we also know that we have the opportunity to use our position as a leading media and communications company to reach beyond our business to make a positive impact on society. This is why we launched Sky Academy in November 2013: a unique set of initiatives that uses the power of TV creativity and sport to inspire young people and help them reach their potential. Bringing together established programmes with a series of initiatives where we're just getting going, we feel very excited about how Sky Academy will be able to make a difference to young people's lives.

## Our performance

The success of our strategy is reflected in the strong performance of the business over the past year. Against a challenging economic and competitive backdrop, we added 23% more products than the prior year and achieved the highest rate of customer growth for three years (excluding the acquired O2 customers and product base).

Strong demand across the board translated to a 7% increase in revenue (excluding ESPN). Combined with a continued focus on operating efficiency, this meant we ended a year of investment with earnings per share flat year on year. This is an excellent result in a period where we absorbed a one-off step up in Premier League costs and invested to accelerate take-up of new connected services and it reflects the strength of the underlying business.

In light of this performance, the Board has proposed a dividend of 32.0 pence, an increase of 7% on the prior year and the tenth consecutive year of growth.

We continued to reap the benefits of our broadly-based approach to growth as more people chose to come to Sky and take more of our products. We added a total of 31 million new paid-for subscription products over the 12 months to take our total base of subscription products past 34 million. At the same time, we added 342,000 new customers to reach 11.5 million, reflecting a continuing appetite to switch services from other providers to Sky. At the end of the year, 37% of our customers took all three of TV, broadband and telephony from Sky, extending our lead as Britain's favourite triple-play provider.

*Game of Thrones* became the highest-rating show ever on Sky Atlantic.

We saw a particularly good performance in TV, adding twice as many new customers as last year. This growth was underpinned by the quality and range of content we offer the whole family. This is our biggest year in entertainment yet as we target a spend of £600 million by the end of 2014 on original British programmes. Highlights from the past 12 months included Anglo-French crime drama *The Tunnel*, a co-production with Canal Plus, and *Penny Dreadful*, a psychological thriller produced by Oscar winner Sam Mendes.

We also strengthened our relationship with some of the world's leading content producers, signing major new partnerships with ITV and HBO and renewing a multi-year movies agreement with Paramount, thereby increasing our range of exclusive content. Meanwhile, Sky Sports enjoyed its highest share of viewing for seven years with the best-ever Premier League season in terms of audiences while at the same time strengthening its offering for the future with 30 new sports rights agreements.

Revenue	£7.6bn
Products	34.8m
Customers	11.5m

Meanwhile, our investment to accelerate take-up and usage of our connected TV service delivered excellent results, increasing the value we offer to customers and opening up new sources of revenue. Over the year, the total number of connected Sky+HD boxes more than doubled to 5.7 million, equivalent to 57,000 new households being connected every week. This means that more than 50% of TV customers were connected at the end of June, making Sky Britain's most popular connected TV platform.

This explosive growth has transformed the viewing experience. On Demand downloads grew threefold over the year as customers responded to greater flexibility and choice. Our expanded Box Sets service proved particularly popular with viewing to top titles like *24* and *Game of Thrones* up fourfold in Q4.

At the same time, the number of households registered for Sky Go, our mobile TV service, grew 19% to 5.5 million, helping push viewing figures to new highs. We saw particularly strong growth in entertainment with entertainment and movies accounting for two-thirds of all viewing to Sky Go at the end of the year.

Through all this, we continued to extend our lead in customer service. Initiatives like bringing our entire engineer workforce in-house and the roll-out of our One Service operating model, where we join up different elements of the service experience more effectively, has helped deliver record levels of customer satisfaction. As a result, Sky again earned the top ranking from Ofcom for quality of service by a provider of TV, broadband and home phone services.

Underpinning everything we achieved operationally was our continued work to reach beyond our business and make a positive impact on the wider community. We launched Sky Academy in November and were delighted that over 105,000 young people took part in a Sky Academy initiative during the year.

Of course, none of what we do would be possible without the dedication and hard work of our people. They are vital to our success and I would like to thank each and every one of them for their contribution in the last 12 months.

With their continued support, the outlook for the business is very positive. Our strategy is delivering and there is a broad and growing market opportunity that Sky, with our unique combination of strengths, is best placed to take advantage of. Our track record of success in Britain and Ireland is the starting point as we expand into Europe. The opportunity is substantial and this is good news for our people, good for customers and good for our shareholders.

# Our performance

## Operational key performance indicators

### Total products



#### Description

Total products is defined as the total of all paid-for subscription products taken by our customers and includes TV HD Multiscreen, Sky Go Extra, Broadband Telephony and Line Rental.

#### Analysis

A key element of our strategy is to encourage new customers to take multiple products when joining and to sell more products to existing customers. In 2014 we added 31 million products, 23% more than the prior year (excluding the acquired O2 customer base).

### Retail customers



#### Description

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

#### Analysis

An important part of our strategy is to continue adding new customers. In 2014, we added a total of 342,000 new customers, 33% more than the prior year (excluding the acquired O2 customer base) and the highest rate of growth in three years.

### Churn



#### Description

Churn represents the number of total customers over a given period who terminated their subscriptions, net of former customers who reinstated their subscription (within 12 months of terminating their original subscription), expressed as an annualised percentage of total average customers.

#### Analysis

Churn is a good measure of customer satisfaction, which is a key driver of value for our business. Churn for the year 2014 was stable at 10.9%.

### Content: Sky channel distribution



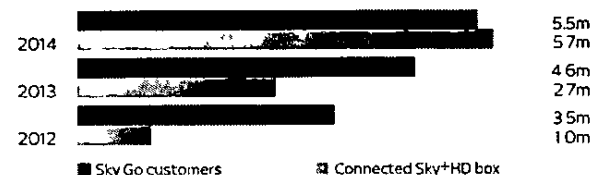
#### Description

The number of households in the UK and Ireland that have access to Sky pay channels included as part of their pay TV subscription service, whether that is directly purchased from Sky or from another operator to whom Sky wholesales its channels.

#### Analysis

Total reach of Sky channels is an important measure because broad distribution drives revenue growth opportunities for the Group. The Group increased the total reach of its pay channels by 4% in 2014.

### Innovation: Connected Sky+HD box and Sky Go customers



#### Description

A connected Sky+HD box is one that is connected to the internet and therefore has access to Sky's full On Demand subscription and transactional services. Sky Go households are those that have registered to use the Sky Go service.

#### Analysis

Innovation across multiple technologies enables the Group to expand into new areas, develop new revenue streams and exploit adjacent sectors. In 2014 we connected a further 3 million Sky+HD boxes and registered 1 million more homes for Sky Go.

### Customers: Customer service satisfaction (NPS)



#### Description

Net Promoter Score (NPS) is a standardised measure of customer loyalty and satisfaction. A survey is sent to the customer following a contact centre interaction with Sky. NPS is calculated by subtracting the percentage of Detractors from the percentage of Promoters.

#### Analysis

Maintaining a direct and long-term relationship with customers is fundamental to the success of our business. We believe customer service delivery is an important differentiator. Our NPS for service calls has dramatically improved over the last three years.

## Bigger Picture Sky Academy participation

2014 **105,000**

### Description

Sky Academy is a groundbreaking set of initiatives that use the power of TV creativity and sport to inspire young people and give them the skills and confidence to succeed in a changing world

We have over 40 independently assured key performance indicators that we use to measure our sustainability performance. These can be found at [sky.com/biggerpicture](http://sky.com/biggerpicture)

### Analysis

Sky Academy tracks the number of young people taking part in Sky Academy initiatives. We have made a strong start towards our target of reaching up to one million young people by 2020

## People Employee engagement

2014 **88%**  
Sky engagement

### Description

To measure employee engagement we undertake an internal survey of our employees and benchmark their answers externally. As part of a broad array of topics surveyed, employees are asked a series of questions designed to quantify engagement.

2014 **83%**  
National benchmark

### Analysis

Employee engagement is a good indicator of how our employees feel about the Company. As well as reaching a high performance indicator for employee engagement, we have improved from 2012 and outperformed an independent external benchmark of other blue chip companies.

## Financial key performance indicators

### Adjusted revenue<sup>1</sup>

2014		£7617m
2013		£7235m
2012		£6791m

### Description

Adjusted revenue includes revenue from retail subscription, wholesale subscription, advertising and installation, hardware and service

### Analysis

Adjusted revenue is a key measure of how the Group is delivering on its strategy to grow the business. In 2014, adjusted revenue grew by 5% with good growth in both retail and commercial operations. Excluding ESPN, adjusted revenue grew by 7%.

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

2014		£1260m
2013		£1330m
2012		£1223m

### Description

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

### Analysis

Adjusted operating profit is a key measure of the underlying business performance. In 2014, adjusted operating profit was down by 5% on the previous year as the Group absorbed an increase in the cost of Premier League football rights, the consolidation of the acquired Q2 consumer broadband and fixed line business and our planned investment in connected services.

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

2014 **60.0p**      2013 60.0p  
2012 50.8p

### 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. The Group generated the same earnings as last year despite making several investments for growth and absorbing the Premier League cost increase in the current financial year.

### Total shareholder return

5 Yr CAGR		18%
1 Yr CAGR		14%
		12%
		9%

■ BSKyB ■ FTSE 100

### 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. The chart above illustrates the TSR performance for the 12 months to 30 June 2014 and an average annual performance compounded over five years to 30 June 2014.

### Analysis

TSR represents a comparable measure of shareholder return over time. BSKyB shares outperformed the FTSE 100 index by 3 percentage points in the year to 30 June 2014 and by 4 percentage points over five years.

<sup>1</sup> A reconciliation of statutory to adjusted measures is shown on page 139

# Content

## Digging in

*The Tunnel* our gripping crime drama from the makers of *Broadchurch*, became Sky Atlantic's highest-performing original series when it aired in the autumn. A co-production with France's CANAL+ and based on Danish

series *The Bridge*, the story followed the uneasy relationship between detectives from the UK and France as they investigate the discovery of the body of a prominent French politician in the Channel Tunnel.

Critically acclaimed and a ratings success, the series was a great example of the way that we present our content to work across all platforms. The series peaked at one

million viewers on linear TV but the same number again watched it On Demand and on Sky Go.

*The Tunnel* was just one example of our increased commitment to drama. In all we screened more than 60 hours of our own commissioned drama in the year over 60% more than the previous year. There is much more to come next year with our largest

commission to date *Fortitude* due to air on Sky Atlantic in 2015. Starring Michael Gambon, Sophie Gråbøl and Stanley Tucci, *Fortitude* shows our ambition in drama. We are excited about its potential both for our customers at home and for viewers around the world as we sell it on to other broadcasters via our international distribution business, Sky Vision.

## Content

(continued)

The single biggest reason that customers choose to take Sky is for a better choice of TV. In this, our biggest year of content yet, Sky's on-screen offering is larger, more diverse and of a higher quality than ever before.

We invest more on screen than anyone else in Britain and Ireland – more than £2.6 billion this year – with the aim of offering the best and broadest range of programming for everyone in the family. A big part of this strategy in recent years has been about building out our Sky entertainment channels, bringing to them the same sense of ambition that has been so fundamental to our success in sport, movies and news.

We have made huge strides expanding our portfolio of entertainment channels, strengthening the capability of our team and significantly increasing our investment in original production. By the end of calendar year 2014, we will have spent £600 million on home-grown British programming across our channels, an increase of more than 50% over three years.

As part of this drive to increase investment in original British commissions, we have put a particular focus on drama. Since last July, we have screened more than 60 hours of new drama programming across our four entertainment channels – Sky 1, Sky Atlantic, Sky Living and Sky Arts.

## Unbelievable, Jeff

Sky Sports set new records for live Premier League football in the 2013/14 season, with more fans enjoying our unrivalled coverage than ever before – at home or on the go.

As the most exciting season in recent years came to its thrilling conclusion, Sky Sports was the one place to watch the title race unfold. In the final weeks of the season, Sky Sports was the only broadcaster to show games featuring the top four sides –

Manchester City, Liverpool, Arsenal and Chelsea – and was the exclusive live venue for all three matches on the final day as Manchester City clinched the title.

Across the season, average Premier League audiences on Sky Sports were up 7% as we showed more

matches than ever before – 116 live fixtures including 49 of the 50 most watched Premier League matches.

Sky Sports enhanced its coverage by adding Liverpool legend Jamie Carragher to its outstanding line-up of experts and launching new shows including *Saturday Night Football*.

And the excitement didn't stop there. The football season was followed by another busy summer on Sky Sports, including England cricket, the US PGA Golf and the Ryder Cup, every Formula 1 weekend and US Open tennis. There's hardly time to take a breath before the start of the new season.



# Let's work together

At Sky we're proud of the many strong partnerships that we've developed over the past 25 years. Working closely with other content businesses, whether broadcasters, rights holders or content creators, has been crucial to our success right from the very start, helping us to bring our customers the very best programming from around the world. Channels like National Geographic, History and Discovery broaden our offering and are hugely valued by customers.

This year we took our relationship with some of the world's leading content creators to another level. In January we announced a broad new partnership with ITV giving Sky customers unrivalled access to ITV programming. This has included the launch of a brand new pay channel, ITV Encore, dedicated to drama and exclusive initially to Sky.

We also extended our partnership with HBO. Building on the success of Sky Atlantic, Sky will remain the exclusive home of HBO in Britain and Ireland until 2020, making it the only place to enjoy new series of global hits such as *True Detective* and *Girls*, or much-anticipated new shows like *Silicon Valley* and *The Leftovers*. Significantly, the new agreement

will also see Sky and HBO co-produce major new cinematic drama series.

Our deal with HBO is just one of a growing number of co-production partnerships that we are building. We know that if we want to deliver the best content from around the world, we can't do that alone. That's why we worked with Showtime on our Victorian thriller *Penny Dreadful*

and with NBC Universal on *Dracula*, starring Jonathan Rhys Meyers. And it's why we are partnering with FX Networks to develop brand new post-watershed comedy for audiences on both sides of the Atlantic.

The customer response has been very positive. We have had our best year of TV growth in three years, adding more than a quarter of a million new TV customers since July 2013. At the same time, Sky 1, Sky Atlantic and Sky Living account for three of the top four slots in customers' ranking of must-have pay TV channels, and Sky Arts has developed a reputation for having some of the best arts programmes on TV.

Because our channels have distinct and complementary identities, we are able to offer a diverse range of programming to suit the whole family. Successful shows this year range from Karl Pilkington's factual entertainment series *The Moaning of Life*, which attracted 2.5 million viewers to its opening episode on Sky 1, to the critically-acclaimed Victorian thriller *Penny Dreadful*. Created by three-time Oscar® nominee John Logan and co-produced with Showtime for Sky Atlantic, it notched up 1.5 million viewers for its opening episode.

Our commitment to bringing our customers new and distinctive content extends to our acquired programming, where we continue to offer many of the biggest and most talked-about US shows. Sky Living's *The Blacklist*, starring James Spader, was one of the stand-out hits of the year, launching with an audience of 1.7 million viewers. Meanwhile, the fourth series of the epic *Game of Thrones* became the highest-rating show ever on Sky Atlantic, with 2.2 million viewers for the first episode alone.

The success of *Game of Thrones* illustrates how our investment to grow take-up and usage of new connected TV services is transforming the viewing experience, with customers taking advantage of the flexibility to watch their favourite programmes when and where they choose. In the run-up to the launch of series 4, Series 1-3 of *Game of Thrones* became our most downloaded box set ever.

# Content

(continued)

Sky Movies is another area where the benefits of our connected TV strategy have been transformational. Two-thirds of Sky Movies customers had a connected box at the end of the year helping to increase On Demand views on Sky Movies by 60% on the prior year. Over the Christmas period, Sky Movies customers downloaded twice as many films as the previous year. This was helped in part by a dedicated Christmas Movies On Demand section complementing the return of the Sky Movies Christmas pop-up channel.

We also took steps to strengthen the range and quality of titles available on Sky Movies with the renewal of our output deal with Paramount which gives us exclusive rights across all platforms to blockbusters like *Noah* and *Anchorman 2*. This means that we have secured new agreements with five of the six major Hollywood studios in the last two years.

Sky Sports had another great year enjoying its highest audience share in seven years. We had an outstanding football season thanks to one of the most exciting Premier Leagues in recent times and a great end

to the Football League. This performance was boosted by sports customers choosing Sky Go to watch matches on the move. We recorded the three biggest-ever Sky Go audiences in the year including a peak of 379,000 viewers for Manchester City against Chelsea in February. As the football season ended, Sky Sports customers could still look forward to an incredible summer of live cricket, rugby and Formula One with the Ryder Cup – the tenth to be shown live on Sky – coming in September. Sports customers can also now enjoy a brand new channel, Sky Sports 5, which will screen up to 600 live European football matches over the 2014/15 season.

Meanwhile, we continued to broaden the Sky Sports offering, signing 30 rights deals over the course of the last 12 months. This includes new deals for IPL cricket, Super League Rugby, Top14 Rugby, Gaelic Athletic Association and the Masters and PGA Tour golf, all of which gives us certainty over 90% of our sports costs through to 2016.

# And the Winner is...?

We all know that winning isn't everything and we use lots of measures at Sky to assess our performance. But, it's still great to know that the effort and investment we've put into creating world-class content has been recognised and celebrated by our peers.

## Three BAFTA TV Award wins

- *A League of their Own* Best Comedy and Comedy Entertainment
- *David Attenborough's Natural History Museum Alive 3D* Specialist Factual
- Sky Sports coverage of last year's Ashes, Best Sport and Live Event

## International Emmy\*

- *Moone Boy* Best Comedy

## Three Royal Television Society Awards

- *Game of Thrones* Best International Programme
- Sky Sports coverage of last year's Ashes
- Best Sports Presenter Gary Neville

## Sports Industry Awards

- Sky Sports Digital Media, Digital Platform of the Year

## Broadcast Awards

- Sky Sports Ryder Cup coverage, Best Sports Programme
- *A Touch of Cloth II* Best Comedy Programme
- *A Young Doctor's Notebook*, Best Multichannel Programme

## British Broadcasting Press Awards

- *The Tunnel* Best Multichannel Programme

## Broadcast Digital Awards

- *Bradley Wiggins: A Year in Yellow* Most Popular Factual

The Chancellor George Osborne, is quizzed by readers of children's newspaper First News in an interview for Sky News

Twenty-five years after giving Britain its first taste of 24-hour rolling news Sky News has lost none of its appetite for innovation. The launch of Sky News on Catch Up TV in May is just the latest example of the way that Sky News has embraced new technology to enable customers to curate the news in the way that they want it. Sky News mobile applications have been downloaded over 10 million times while Sky News for iPhone has been named in Apple's top ten free UK apps of all time. All this has helped Sky News become the European news channel of choice according to the 2014 European Media and Marketing Survey.

As we increase our investment on screen it's become increasingly important that we monetise that content effectively. One of the ways we have done that is by increasing the distribution of our content across the marketplace.

In October we took a significant step forward with the launch of the Entertainment Month Pass on our over-the-top streaming service NOW TV. This offers a simple, contract-free way to access ten of the top subscription TV channels including Sky 1, Sky Atlantic, Disney and Discovery allowing customers to stream episodes of the latest series live and on demand on a pay-as-you-go basis.

We also extended our content distribution through a series of new wholesale agreements. These included a major new five-year channel distribution deal with Virgin Media giving Virgin customers an additional selection of HD channels, more content on the go and access to the Sky Sports and Sky Movies apps. In addition, we agreed a new distribution deal with TalkTalk which significantly extends the take-up of our basic channels. We also added the NOW TV Sports Day Pass to TalkTalk's YouView platform.

# Innovation

## Guiding the way

If getting customers connected to On Demand was our first priority for the year, helping them to enjoy the full range of services on offer was the next. The launch of the new home page on our Electronic Programme Guide (EPG) in the spring was a crucial step to achieving that.

For the very first time, we moved away from linear viewing as the default option in order to showcase all our On Demand content. The new EPG gives Box Sets, Catch Up and Sky Store much greater visibility, encouraging customers to engage with the full breadth of content now available to them.

The new EPG also increases the prominence of our new search functionality, which delivers integrated search results across linear and On Demand, making it much easier for customers to find the programme that they are looking for.

It's early days, but the initial response from customers has been very strong, with On Demand downloads higher and customer satisfaction up.

And there's more to come. Our next software update, later this year, will enable us to dynamically change the home page to do things like promoting the launch of a new show or film. For the first time, we'll also be able to make recommendations on programmes that customers might like to watch based on what they are choosing to record on their planner.

## Innovation

(continued)

Sky's ability to innovate across multiple technologies allows us to provide customers with the very best viewing experience, wherever and whenever they want. It is also enabling us to take our business into new areas, opening up new revenues in emerging segments of the market and exploiting adjacent sectors.

We have a proven track record of harnessing the latest technology and driving new trends in TV viewing, such as giving customers more control with Sky+ or a step change in picture quality with High Definition. This year, we built on that track record by investing to accelerate the take-up and usage of our new connected TV services. Our aim is to put Sky at the heart of the connected household, meeting customers' growing desire to consume content on their own terms.

A key focus has been getting customers connected. In the last 12 months we have connected 3 million Sky+HD boxes to broadband, equivalent to 57,000 new households every week. This explosive growth means that more than half of our 10.7 million Sky TV customers now have access to the full range of On Demand services. This is more than double the number in the prior year and makes Sky Britain and Ireland's most popular connected TV platform.

## Great TV, NOW

This year NOW TV changed the game in 'smart' TVs with the launch of the new NOW TV Box. Available for just £9.99, this compact and easy-to-use box provides a low-cost, low-commitment way for customers to start streaming programming from the internet direct to their TV. And it's a brilliantly simple way for Sky to attract new customers in the 13 million homes yet to pay for TV.

The NOW TV Box can be up and running in minutes. Once connected, homes get instant access to the full NOW TV experience which includes Sky Sports and Sky Movies as well as a huge range of Catch Up TV from popular online services like BBC iPlayer, 4OD and ITV Player. In October, we extended the range of content available on NOW TV with the launch of the Entertainment Month Pass. This provides customers with instant access to ten of the top pay TV

channels such as Sky 1, Sky Atlantic, Disney and Discovery, making more of the best TV available to anyone with a connected device.

It's just one way that NOW TV is appealing to a new group of customers – people who love the quality of Sky content but want a more flexible approach than the full-service Sky subscription. NOW TV is also available on a broad range of internet-connected devices that includes tablets, PCs and consoles, with PS4 being added to the list this summer.

Everything we see tells us that customers love the benefits that come with the connected box. Connected customers can access a much richer range of content, including Britain's biggest Catch Up TV service and Box Sets of hit series like *Game of Thrones*, *Stella*, *Prison Break*, *Mad Dogs* and *24*. With On Demand usage up more than threefold in the last year, the impact on the viewing experience has been transformational. Evidence shows that connected TV customers are watching more TV – an average of 20 minutes more per day – as they respond to the greater choice of content available and the greater flexibility over how they watch. They are also more satisfied, more likely to stay with Sky and more likely to recommend Sky.

More customers than ever before are also choosing our mobile TV service Sky Go to watch content both in and out of the home. The number of households registered for Sky Go rose by a fifth over the year to 5.5 million, helped by the addition of 22 new channels and the launch of the service on more devices including Android tablets. We ended the year with more than 1 million customers taking Sky Go Extra, our paid-for service which offers the ability to watch on more devices and download content to watch offline.

As well as increasing the value that customers get from their Sky subscription, the new connected TV services are opening up new revenue opportunities for the business. With our expanded Box Sets offering included within our HD package, we have seen more and more customers upgrading to HD, while revenues from movie rentals via Sky Store have doubled in the year. In the spring, we also launched our Buy & Keep service, enabling customers to buy a film from Sky Store and download it to keep on their set-top box, as well as receiving a DVD in the post. It's early days, but we are very excited about the opportunity for Sky to enter the purchase segment of the film market, estimated to be worth £1.6 billion a year in the UK.

For the first time, we are using innovation to provide Sky for everyone. We are addressing the emerging paylight segment in the marketplace by rolling out our over-the-top streaming service, NOW TV. This is proving an effective new way of growing our TV customers among the 13 million homes that don't yet take a pay TV service. Among new developments this year, the launch of the new NOW TV Box and our monthly Entertainment Pass have attracted increasing numbers of customers to the service.

Of course, our success in accelerating take-up and usage of connected TV services has been helped by our strength in home communications. Continued growth in this area meant we surpassed 5 million broadband customers in the year, maintaining our lead as Britain's favourite triple-play provider. In all, we sold 1.3 million home communications products over the 12 months, as customers' appetite to switch from other providers to save money with Sky remained strong. We also successfully integrated the Q2 broadband customers we acquired in April 2013.

We know customers like our market-leading quality and value proposition, and we continue to find new ways to give them more value and improve the quality of the communications product. This year, for example, we introduced a WiFi booster for broadband customers to help them make the most of their service throughout their home. With more than 60% of our customer base yet to take all three of TV, telephony and broadband from Sky, there's plenty more growth to come.

## Targeting new revenue

Sky's ability to innovate adds value to our content and changes the viewing experience for customers. It's also enabling us to open up new revenue opportunities by extending our business into adjacent sectors. Sky AdSmart, our new targeted advertising service, is a great example of the way in which we are opening up markets that we've been unable to reach until now.

Launched at the start of 2014, Sky AdSmart enables advertisers to target their campaigns more accurately by tailoring what's shown in TV ad breaks according to a household's profile and location. In doing so, it's increasing the size of our advertising opportunity by attracting new brands to advertise on Sky. This includes local businesses that may have concluded TV advertising wasn't for them and brands that have previously tried TV but left.

In just six months, almost 600 advertising campaigns have been run across 180 advertisers, of which 15% are new to TV and 68% are new to Sky. This includes brands like Audi, Dyson, Lego, Prime Location and Chester Zoo.

Our new strategic partnership with Johnston Press further strengthens the Sky AdSmart offering by enabling local companies to create and deliver campaigns that combine Johnston's regional print titles with TV advertising focused on specific local markets.

Sky AdSmart is another first for Sky – the first broadcaster in Europe to introduce targeted advertising – and it's already been recognised as winning Best Technology and Best Innovation at the MediaTel Connected Consumer Awards and Achievement in Advertising at the Connected TV World Summit.





# Customers

## Sky Broadband Shield

As the UK's second largest broadband provider, we take our responsibilities to our customers extremely seriously. We want them to enjoy the best of what the internet offers while giving them the ability to enjoy it in a safe environment.

The launch in November 2013 of Sky Broadband Shield was a big step forward in achieving this aim. Free to all Sky Broadband customers, Broadband Shield is a brilliantly simple tool which enables customers to filter website content across all internet-connected devices in the home, giving parents in particular greater control over how their children use the web.

Customers can filter websites by age-bandings similar to movie classifications or exclude sites that contain pornography or other categories of content identified by customers as a potential cause for concern. At the moment, Sky Broadband customers are asked to make an active choice about the

filters when going online with Sky for the first time or when they upgrade their router.

Later this year we will ensure that all remaining customers will have made a choice about whether or not to apply whole-home filters. Even those homes without children can benefit as Sky Broadband Shield also helps provide protection against phishing sites and malicious websites containing viruses.

We think that using technology in this way makes a real difference to our customers as they look to protect their family. However we also know that technology doesn't provide all the answers, which is why we've joined forces with the other leading ISPs to launch a campaign called Internet Matters, designed to promote awareness of internet safety. For further information go to [internetmatters.org](http://internetmatters.org).

## Customers

(continued)

Our direct, long-term relationships with over 11.5 million households across Britain and Ireland are fundamental to the success of our business. Customers value what we offer and trust Sky to keep meeting their needs, from the content we put on screen to the products that we put in their hands.

As the connected home becomes more established and customers are faced with ever-greater choice of products and providers, we believe that service delivery is becoming an increasingly important differentiator. The strength of the Sky brand in home entertainment and communications and the capability that we have developed in the past 25 years means that we are able to bring new products to market quickly and at scale supported by best-in-class customer service. This is a great source of competitive advantage.

We understand the value of good customer service and have continued to raise the bar in this area. Much of our focus this year has been on simplifying the customer experience. Our 'One Service' model was developed to join up different elements of the service experience more effectively. Piloted last year, 'One Service' puts customers straight through to an expert agent who can manage the case from start to finish, coordinating directly with our engineers on the ground. This year we have been steadily rolling out 'One Service' across our contact centres, so that it now covers around 20% of all inbound calls.

As part of our move towards 'One Service', we brought a further 740 engineers into Sky in October. This means that Sky people now complete almost all UK service visits and installations, giving us greater control over the customer experience and helping us to drive continued improvement.

In October 2013, we expanded our service delivery capability by bringing in-house 740 engineers – the people who install and service Sky customers' in-home equipment. The transfer of the engineers and other key personnel from our outsource partner AVC meant we were able to create one integrated nationwide team within Sky of around 3,000 engineers. This has had an immediate positive impact on our customer service operation.

Having one integrated team, all working from the same systems and under the same terms, helps us to deliver a consistent level of service to all customers every day. And it's not just about fixing faults. All our engineers spend six days a year ensuring they are up to speed with the latest products and developments. This means that they can take the time when they are in homes to show the

customer around all the content and services they can get from their subscription. For example, using iPads, engineers are now able to demonstrate the benefits of Sky Go – available at no extra cost to all Sky customers. This helps us ensure that our customers get the best value from their subscription, improving satisfaction and increasing loyalty.

## Getting closer to customers

We are also investing more than £20 million a year in training to ensure that our people have the right tools and skills to do their jobs well. After their initial training, all our call centre staff now spend an average of one day a month learning about new developments and building their expertise of Sky products so that more of our customers get their issues resolved in one call.

The impact on the customer experience has been significant. According to our own internal performance measures, customer satisfaction is at record levels. Meanwhile, we have retained our service leadership in the triple-play sector, ranking number one in this year's Ofcom survey with the highest satisfaction scores for customer service. We have also won recognition from consumer group uSwitch, winning four awards in all, including Britain's best triple-play provider.

Of course, equally important to the delivery of a good customer experience is making sure we are doing everything we can to prevent things going wrong. One of the ways we are achieving this is by continuing to drive penetration of our most reliable Sky+HD box, which was in 83% of homes at the end of June, versus 75% in the prior year. Combined with the growing popularity of our online self-help function, this has led to a significant decline in the number of calls we receive from customers and the number of engineer visits we need to make. Over the last four years, both have fallen by more than a third despite the continued growth of our customer and product base.

## Help yourself

One of the big shifts in our business has been the growing number of customers that want to help themselves when they have a problem or query about their service. We've responded to this by developing and increasing the range of customer help services we offer online.

Over the last year, we have provided more information and tools to help customers to resolve many of the common problems that arise. By cutting out the middle man, we're empowering the customer. But it's also saving us money, reducing the number of calls to our contact centres and ensuring that the time that our service teams spend with customers is focused on helping those with more serious issues. We also provide specific guidance

for customers with disabilities on how to get the most out of our services through our bespoke Accessibility website. Our online help visits have doubled over two years to more than 1.2 million visits a week. This summer we are taking another important step forward with the launch of a dedicated customer service smartphone app, making all of our help topics even easier to access.

## Service without limits

Our home communications business is a great example of the way in which we innovate and work hard to offer our customers great value. We have invested heavily in our network, which now serves more than 90% of UK homes. And seven years after we launched, customers' appetite to switch from other providers to save money with Sky remains strong: we are number two in the broadband market and 37% of our customers take the triple play of TV, phone and broadband from Sky.

To make sure we give customers great value, we have a range of products to suit all needs and budgets. Sky Broadband Unlimited is ideal for surfing and downloading music and movies. Sky Fibre Unlimited, with download speeds of up to 38Mb/s, is perfect for families who have lots of devices on the go at once. It means more online games, the ability to stream movies as well as non-stop music playlists. We also have Sky Broadband Lite for people who just occasionally want to browse the internet and check a few emails. We know that to make the most of the connected home, you need a great broadband service.

So that's why our unlimited services are genuinely unlimited, with no usage limits and access to over 20,000 Sky WiFi hotspots around the country – great news for our millions of Sky Go customers. We continue to develop our kit to make sure everything is easy to use and customers can get the best performance. So we have designed routers that customers can install themselves, and wireless boosters that extend the WiFi signal further. With more than 5 million of our customers yet to switch their home communications service to Sky, there is plenty more room to grow.

# Bigger picture

# Sky Academy

A whole generation has been born since Sky launched in 1989. They and their families are the bedrock of our business. So, in our 25th anniversary year, we decided to make a step change to the support that we give young people across Britain and Ireland.

This is a role that we are well placed to play. The nature of our business, spanning TV, sport and technology, is a good fit with young people and we know the Sky brand resonates strongly with them. As a major employer, we understand that young people need more than academic qualifications to reach their potential - it's also about things like team work, self-confidence and self-awareness. We want to play our part in giving young people the help and opportunities they need to succeed in a changing world.

This is where Sky Academy comes in. Bringing together a range of initiatives - some well-established others just getting going - Sky Academy aims to use the power of television, creativity and sport to inspire young people and help them build skills and confidence. Just as Sky Academy is about encouraging the under-25s to aim high, we are also ambitious in our targets. We want to create opportunities for up to one million young people by 2020.

Headquartered in our new Believe in Better building, due to open in the autumn at the heart of our West London campus, Sky Academy is comprised of four initiatives: Sky Sports Living for Sport, Sky Academy Skills Studios, Sky Academy Scholarships and Sky Academy Starting Out.

**Sky Academy Skills Studios** has welcomed over 20,000 students aged 8-18 to the purpose-built facility in West London in less than two years since launch. The Sky Academy Skills Studios experience takes schools behind the scenes at Sky, giving them the opportunity to use the latest technology to create their own news reports on subjects they're studying. We will be launching our second Skills Studios in Livingston, Scotland in 2015.

**Sky Academy Scholarships** provide financial assistance and mentoring to support some of the most exciting emerging talent in sport, television and the arts. This year, we have helped 17 young artists and athletes and this spring, we launched a brand new scheme with the National Film and Television School to provide support to young people from economically-disadvantaged backgrounds considering a career in television.

**Sky Academy Starting Out** helps prepare young people for work by offering a range of work experience, apprenticeships and graduate roles. Reaching almost 600 young people in the last year, we aim to double the number of places across the business over the next three years, helping to create the next generation of talent at Sky and giving more young people a head start in their careers. As part of this, we're set to launch a new one-day career experience for 16-18 year olds this autumn.

## Bigger Picture

(continued)

Seeing the bigger picture is fundamental to the way we do business at Sky. It means making a positive impact on the communities where we live and work and being willing to look beyond the delivery of short-term results in order to build a better business that is durable for the long term. This approach helps us build long-term relationships and earn the trust of our customers, employees and partners. And it's an area in which we made important progress in the past year.

### Social and economic contribution

As Sky grows, so does the positive social and economic contribution we make to Britain and Ireland. According to this year's research from the independent consultants, Oxford Economics, we contributed an estimated £6 billion to UK GDP in 2013/14 and worked with 7,000 suppliers.

With more than 25,000 employees, we are one of Britain's largest companies. However, our total impact is much wider than this. Including suppliers and partners, 117,000 jobs in Britain were dependent on Sky in the last year. In all, Sky generated £2.7 billion of tax revenues in the year equivalent to £42 for every person in the UK.

As well as being a valued part of everyday life for millions of customers, we are the biggest commercial supporter of the creative and sports industries in the UK. Within our £2.6 billion investment in content, we are on track to spend a record £600 million on UK-produced content across our channels (excluding sports rights) by the end of December 2014. This has seen us work with more than 150 independent production companies in the last 12 months, providing a platform for their creativity and helping them grow their businesses.

## Road to nowhere

Through Sky Rainforest Rescue, our partnership with WWF, we're working together to help protect one billion trees in the Amazon rainforest in Brazil.

Our presence in 11.5 million homes across Britain and Ireland gives us a unique opportunity to raise awareness of the issue of climate change, one of the world's biggest challenges and something we feel passionate about. Self-confessed environmental sceptic Freddie Flintoff may not have been an obvious first choice for a film about the work that we are doing in the Amazon rainforest. But when we gave him a chance to embark on the journey of a lifetime, he jumped at the chance. Never one to turn down a tough physical test, Freddie had an

added reason to give it a go – his daughter had been learning about the rainforest at school and was desperate to try to help. The resulting two-part Sky 1 documentary *Flintoff's Road To Nowhere*, followed Freddie and extreme cyclist and environmentalist Rob Penn as they cycled Brazil's Trans-Amazonian Highway, exploring one of the world's most enigmatic regions at a time of unprecedented change. It was just one way that we sought to raise awareness about climate change over the year.

# Changing the game

**Sky Sports Living for Sport** is now in its 11th year and is our longest-running initiative. Delivered in partnership with Youth Sport Trust, over 95,000 students from primary and secondary schools across Britain and Ireland have taken part in a Sky Sports Living for Sport activity this year.

At the heart of the programme is our team of over 90 world-class athlete mentors headed up by our ambassadors: Olympic athletes Jessica Ennis-Hill, Darren Campbell and Katie Taylor, as well as our Sky

Academy Ambassador David Beckham. Our mentors go into schools and use sports skills to help build young people's confidence and life skills, whatever their athletic ability. We also host Sky Sports Living for Sport Community Games events in local communities throughout the UK for primary school children.

We're proud of what we've achieved with Sky Sports Living for Sport but we wanted to go further incorporating Sky Sports Living for Sport and the ethos that underpins

it into our TV schedule. So last autumn we launched *Game Changers*, a brand new TV show for kids that introduces inspirational role models and encourages them to try out different sports. Recorded live in front of a studio audience of children, the show goes out on Sky Sports 1 and Sky 1 on Saturday mornings presented by Di Dougherty and Sky Sports Living for Sport Ambassador Darren Campbell, one of Britain's most successful and well-known sprinters.

The show marked the end of its first season in May with a live *Game Changers Special* to celebrate the achievements of the young people and teachers involved in Sky Sports Living for Sport. With awards presented by our Ambassadors David Beckham and Jessica Ennis-Hill, it was a fitting end to a successful first season for *Game Changers*.

## Bigger Picture (continued)

In sport, we continued to strengthen our relationships at all levels helping to improve performance, participation and infrastructure through the investment and promotion that we provide. One area of particular focus in the past year has been women's sport. In the last 12 months, Sky Sports concluded new rights deals to broadcast England Netball and Women's Rugby and extended its relationship with the Ladies Professional Golf Association. Reflecting its commitment to the area, Sky Sports launched a new weekly show in September dedicated to women's sport as well as supporting *The Sunday Times* as the exclusive partner for the 2013 Sportswomen of the Year Awards in December.

### A responsible business day to day

Of course, we understand that what we do as a business is only part of the answer. We know that how we do business is just as important. For Sky, believing in better also means doing the right thing and acting responsibly in all that we do. This approach is integral to the culture and values we seek to promote among our people. The millions of customers across Britain and Ireland that choose Sky for their home entertainment and communications have high expectations of us and it's our job to maintain their trust in the decisions we take every day.

One example of the way in which we do that is in our work to make our products and services accessible to everyone, including those with disabilities. We provide subtitling and audio description on 24 of our Sky-owned TV channels, with over 80% of linear content delivered with subtitles and over 20% with audio description. The new Electronic Programme Guide that we rolled out this year was designed in consultation with the Royal National Institute of Blind People. And in May we strengthened the capabilities of our 90-strong accessibility customer service team when we extended the use of our Video Relay Service to enable hard of hearing customers to call in and use sign language.

We continue to make good progress against our ambitious 2020 environmental targets. Our greatest operational impact is in our own energy use, so we're aiming to halve our carbon intensity (CO<sub>2</sub>e emissions relative to revenue) by 2020. As at the end of 2013/14, we've already achieved a 40% reduction against our 2008/09 baseline. Over the same time period, our absolute gross emissions have decreased by 10% to 95,000 tonnes CO<sub>2</sub>e. Where we have unavoidable emissions, we offset and continue to be carbon neutral. More detail around our greenhouse gas emissions can be found on page 79.

## Powering down

We have set out ambitious targets to reduce our impact on the environment, including a target to improve energy efficiency across all our buildings by an average of 20% by 2020 (compared to the 2008/09 baseline). One way we are doing this is to improve the efficiency of our data centres, the buildings we use to house the millions of pieces of data that help our business work.

We've installed monitoring tools to measure the performance of our data centres and we're making the most of virtual servers and cloud-based technology. By the end of 2014, we will have moved almost all of our servers into our newer, more energy-efficient data centres.

By 2017, we hope to have closed our smaller data centres, completely reducing costs and giving us greater control over our IT systems. This is a big step towards building a more durable business for the long term.



We are committed to building productive, fair and ethical relationships with our suppliers and distributors – relationships on which so much of the success of our business relies. We set out our expectations in our Responsible Sourcing Policy, which is available on our website. Over the past year we have assessed 100 per cent of our strategic suppliers against our responsible sourcing questionnaire.

While we do not have a specific human rights policy, we have a strong commitment to upholding the principles of human rights across our business. Our commitments to human rights are included within our Environment Policy and our Responsible Sourcing Policy. These principles are also outlined in Sky's Ways of Working. This is the code of conduct that everyone who works at Sky is expected to adhere to. Further information is available on our website at [sky.com/biggerpicture](http://sky.com/biggerpicture).

### Inspiring action

We know that we have the opportunity to use our position as a leading media and communications company to reach beyond our business and make a positive impact on society.

We made a step change in our approach this year with the launch of Sky Academy in November. This is a unique and groundbreaking set of initiatives that use the power of TV, creativity and sport to inspire young people and give them the skills and confidence they need to succeed.

Sport is at the heart of what we do and we believe in its power to change lives. Our partnership with British Cycling, now in its sixth year, has got more than one million people on their bikes since 2009 and the elite success of Team Sky delivered a British winner of the Tour de France for the second consecutive year in 2013.







Sky Rainforest Rescue is our partnership with WWF and the State Government of Acre in Brazil, which aims to save a billion trees in the Amazon rainforest. Through the campaign, we're also inspiring our customers in Britain and Ireland to take action to address climate change.

With the partnership now in its fifth year, more than 1,500 families in Brazil have registered to take part in a voluntary land certification scheme to help give local people ways of making a living from the forest without cutting down trees. As a result of knowing about Sky Rainforest Rescue, 27% of people are now more aware of the issue of deforestation. The partnership has raised a total of over £4 million, with Sky then matching every contribution pound for pound.

We are proud of our work to make a positive contribution to society and we are committed to doing more in the future.

### Carbon intensity<sup>1</sup>

Target: 50% reduction in gross CO<sub>2</sub>e emissions relative to revenue<sup>2,3</sup>

2013/14		12.4
2012/13		12.8
2011/12		13.9
2010/11		16.2
2009/10		19
2008/09		20.6

<sup>1</sup> 2013/14 data is independently assured by Deloitte LLP and can be viewed online at [sky.com/biggerpicture](http://sky.com/biggerpicture).

<sup>2</sup> Relative to 2008/09 baseline.

<sup>3</sup> Gross CO<sub>2</sub>e emissions include emissions from premises and company owned vehicles (Scope 1 and 2).

# People

## Future proofing

We know we're only as good as the people that work for us and nowhere is this more true than in technology where our ability to stay one step ahead depends on attracting the best talent with the most up-to-date skills

Our requirement for software developers has grown in the past few years with the expansion of our connected TV services. However it's also been clear that we're not the only company out there looking in what is an increasingly competitive jobs market.

So we took the decision to develop more of our talent in house. In 2011 we set up the Sky Software Engineering Academy. This takes 24 graduates every July, fresh out of university and passionate about technology, and over the course of seven months helps turn them into fully-fledged developers.

The new starters begin with a four-week boot camp to get them all up to the same level. We then get them out on the job, working on live projects to apply what they have learnt under the close supervision of one of our experts.

Over the next five months they work in small teams on a variety of different tasks to help get them ready for a career in Sky. At the end we sit down with them to help them decide where in the business they might want to pursue a career.

Two years in and the scheme's been a great success so last September we decided to accept a further 12 young people into the programme.

In addition we recruited 12 people into a newly-created Development Operations Academy with the aim

of training up graduates to work on our hardware and infrastructure requirements.

With almost 100 bright young graduates through its doors in the first three years, our Software Engineering Academy is one of the many ways Sky is building skills for the future.



## People

(continued)

Our people are critical to our success. We aim to foster a culture where they can do their best work every day, fulfil their potential and achieve great things together.

In a fast-moving industry, we know that success comes from a willingness to embrace change. We want to encourage our people to strive for continual improvement in everything that they do. That is at the heart of our Believe in Better ethos and has been the basis of Sky's achievements over the past 25 years. We believe it is the best foundation for the future.

Our aim is to create an environment where all of our people can fulfil their potential. To help them progress, we provide a wide range of opportunities for development such as mentoring and new skills training. The Sky

Development Studio, for example, is an online learning portal which provides access to a huge choice of learning resources and courses available to all. Last year this delivered more than 75,000 hours of e-learning across the business.

Because we know that the quality of our managers has a big influence on performance and engagement, we launched a new two-day training programme this year for newly-promoted managers. 'Sky Management HD' covers everything from interview techniques to objective setting over the two-day programme. More than 600 managers have completed the programme in the first year, contributing to a total of 100,000 training days in the last 12 months across the company.

However, learning is not just about formal training. As a large and diverse company, we are also able to offer our people the opportunity to broaden their experience through exposure to different parts of the business. We actively encourage internal moves and job rotations at all levels of the organisation, from project work and short-term placements to new full-time roles. This helps us to build a broader skills base and strengthens collaboration across departments.

## Space to work

For our people to flourish and do the best they can, it's important that we provide them with the best working environment. This summer we opened a brand new building, known as The Hub, right at the heart of our campus in West London, in the latest stage of the redevelopment of the Osterley headquarters where we have been based since 1989.

The Hub is Sky's first major flexible workspace, housing around 450 employees over three floors. Next on the list is the new headquarters for Sky Academy and construction has also begun on a further phase of development. In line with our

commitment to sustainability, all the new buildings are designed to have minimal environmental impact. This project, which started in 2010 with the construction of Sky Studios, represents a transformation of the working

environment for the thousands of our people now based at Osterley. We aim to create a state-of-the-art media and technology campus to support Sky's growth far into the future and are confident that the new facilities will have a positive impact on our people, our business and on our local community. It's not just in Osterley where we're constantly trying to make Sky a great place to work. This year we've

provided access to gyms to keep our people fit, and refurbished all our cafes and restaurants. We know how important the working environment is and we're always changing and adapting it to create the best workplace for our people. This year we've invested in our sites across the UK and Ireland, from Livingston to Victoria and from Dublin to Newcastle.

We know that we will be better placed for success as a business if we have a balanced and diverse workforce that reflects our customers and includes the most talented people, regardless of gender or ethnicity. That's why we are committed to improving diversity in our industry.

One way that we are seeking to improve is by increasing diversity on screen, including on Sky News, for example, where we have increased the representation of women as expert commentators. Another way is the introduction this year of five Sky Academy TV Scholarships. Available to successful applicants on courses run by the National Film and TV School (NFTS), the scholarships will be offered to young people from economically-disadvantaged backgrounds. We will fully fund three places at the NFTS on the Broadcast Production course and two on the Digital Content and Formats course, which we already support through placements and mentoring.

The aim is to encourage individuals who may not otherwise have considered a career in the media with a particular focus on supporting students from black, Asian and minority ethnic backgrounds and those with disabilities. Added to existing initiatives like our partnership with MAMA Youth Project, where Sky sponsors 12 young people from minority and disadvantaged backgrounds, the NFTS scholarships are another step towards increasing diversity in the broadcasting industry.

## A Sky for everyone

Because we want Sky to be a great place to work, we offer a comprehensive reward package which includes generous holiday entitlement and maternity leave allowance, a pension and healthcare, as well as free Sky+HD, Sky Broadband and discounted Sky Talk.

As well as developing and rewarding the people who already work at Sky, we want to encourage new talent to join us. We continue to grow our employee base, adding more than 4,500 new jobs in the last three years to take our total employee base to 25,400.

The launch of Sky Academy in November 2013 has brought a step change in our commitment to provide opportunities for young people within the business. Through Sky Academy Starting Out, we will more than double the size of our work experience and employment programmes over the next three years across a range of work experience, placement, apprenticeship and graduate schemes.

This means growing the size of our existing programmes, but it also means we'll launch a brand new programme offering thousands of teenagers the opportunity to spend a day at Sky for a hands-on experience of the workplace. This will open Sky to even more young people and help them prepare for the world of work. To underline our commitment, Sky Academy will be headquartered in a new building at the heart of our Osterley campus. This will also serve as a space where Sky people will come together for training, development and mentoring.

We believe that a diverse workforce creates a stronger business and therefore we work to create an environment that encourages diversity and innovation.

We are committed to increasing female and ethnic representation in our employee base and in particular in leadership roles. The ratio of male to female colleagues, based on the number of employees as at 30 June 2014, is outlined below:

### Diversity gender

	Male		Female	
Board of Directors	13	87%	2	13%
Senior managers	105	74%	36	26%
All employees <sup>1</sup>	14,740	66%	7,508	34%

<sup>1</sup> Based on full-time equivalent employees from continuing operations and excluding people who work for our joint ventures.

2013/14 data is independently assured by Deloitte LLP and can be viewed online at [sky.com/biggerpicture](http://sky.com/biggerpicture).

## Financial review

We have delivered an excellent year of operational and financial growth. Continued demand across the board translated into strong revenue growth which, combined with a continued focus on operating efficiency, meant we absorbed our investment in connected services and matched last year's record adjusted earnings per share.



Andrew Griffith  
Chief Financial Officer

### Financial performance

We delivered a good financial performance for the twelve months to 30 June 2014. Adjusted revenue growth was 5% (or 7% after excluding the impact of ESPN) and this, together with continued discipline on costs, allowed us to deliver adjusted EBITDA of £1,667 million, down only 1% despite our connected services investment and the step up in Premier League amortisation. Adjusted basic earnings per share were 60.0 pence, flat on the prior year's record level.

Unless otherwise stated, all figures and growth rates exclude adjusting items. A reconciliation of statutory to adjusted figures is detailed on page 139.

### Revenue

	2014		2013	
	£m	%	£m	%
For the year to 30 June				
Retail subscription	6,255	82	5,951	82
Wholesale subscription	407	6	396	6
Advertising	472	6	440	6
Installation, hardware & service	85	1	87	1
Other	398	5	361	5
	7,617	100	7,235	100

Revenue increased by 5% to £7,617 million (2013: £7,235 million) with continued strong growth in both our retail and commercial businesses. Revenue grew by 7% excluding the impact of the discontinued retailing of the ESPN channel in both 2014 and 2013.

Retail subscription revenue after excluding £6 million of ESPN revenue (2013: £89 million) grew by 7% to £6,249 million (2013: £5,862 million) reflecting strong product and customer growth and price rises in the year. Our investments in connected services are paying back, driven by a strong performance from Sky Store which saw revenues more than double on last year.

Our commercial businesses also performed well. Advertising revenue was up 7% to £472 million (2013: £440 million) through a combination of market growth, share gains through our consolidation of two small sales houses in this financial year and a first time contribution from Sky AdSmart. Wholesale subscription revenue increased by 3% to £407 million (2013: £396 million) as renewed carriage agreements and price increases were partially offset by lower customer volumes on third-party platforms.

Other revenue increased by 10% to £398 million (2013: £361 million) with continued strong performance from Sky Bet which saw mobile users up 29% driving revenues up 18% to £183 million.

Our statutory reported revenue grew 5%.

Adjusted EBITDA	£1.67bn
Adjusted basic EPS	60.0p
Dividend	32.0p

#### Costs

For the year to 30 June	2014		2013	
	£m	%	£m	%
Programming	2,662	42	2,486	42
Direct networks	819	13	715	12
Marketing	1,199	19	1,116	19
Subscriber management and supply chain	688	11	647	11
Transmission technology and fixed networks	447	7	401	7
Administration	542	8	540	9
	6,357	100	5,905	100

Excluding the one-off step up in the new Premier League deal and the discontinuation of ESPN carriage (2014: £223 million; 2013: £78 million) programming costs of £2,439 million (2013: £2,408 million) were up 1% in the year as we made disciplined choices across our diverse content portfolio. Sports accounted for the majority of the increase given our investment in a large number of renewed and new rights agreements. Movies costs increased from a broader grant of rights facilitating new propositions like NOW TV, Sky Go Extra and Sky Store, while payments to third-party channel providers were lower than the prior year as we negotiated more favourable terms on several renewed agreements.

Direct network costs of £819 million were up 15% (2013: £715 million) as we continued to grow our customer base and absorbed the acquired O2 customer base onto our network.

Marketing costs of £1,199 million (2013: £1,116 million) were driven by the increased growth of paid-for products compared to last year and promotions behind our drive to connect our base of set-top boxes. Above the line marketing was also higher as we maintained our share of voice in the market with targeted campaigns throughout the year.

Subscriber management and supply chain costs were up 6% at £688 million (2013: £647 million) as we continued to see strong growth in products and customers invested in our connected services and integrated the acquired O2 customers into the Sky base.

Transmission technology and fixed network costs increased by 11% to £447 million (2013: £401 million) largely due to the first time consolidation of the cost base associated with the acquired O2 broadband business. Administration costs of £542 million were broadly flat on last year (2013: £540 million).

#### Profits and earnings

Adjusted EBITDA of £1,667 million (2013: £1,692 million) and adjusted operating profit of £1,260 million (2013: £1,330 million) is an excellent result in a period where the business absorbed a one-off step up in Premier League costs and invested to accelerate take-up and usage of new connected TV services.

Depreciation and amortisation was up 12% at £407 million (2013: £362 million) due to the integration of the acquired O2 business, a higher base of depreciable assets with more unbundled exchanges network upgrades carried out across the year and a higher fixed asset base as we begin to depreciate the development costs of products such as NOW TV and Sky AdSmart.

Profit before tax was £1,186 million (2013: £1,264 million) which included the Group's share of joint ventures and associates profits of £35 million (2013: £37 million) and a net interest charge of £109 million (2013: £103 million). Taxation for the period was £249 million (2013: £295 million) at an adjusted effective tax rate of 21% (2013: 23%) mainly as a result of the reduction in the rate of UK corporation tax.

Profit after tax for the year was £937 million (2013: £969 million) generating adjusted basic earnings per share of 60.0 pence (2013: 60.0 pence). Over the year the weighted average number of shares excluding those held by the Employee Share Ownership Plan ('ESOP') for the settlement of employee share awards was 1,562 million (2013: 1,614 million). The closing number of shares, excluding the ESOP shares at 30 June 2014 was 1,546 million (2013: 1,573 million).

#### Adjusting items

Statutory operating profit of £1,161 million (2013: £1,291 million) includes a net exceptional cost of £99 million (2013: £39 million) which reflects integration costs of the acquired O2 business and the ongoing amortisation of acquired intangibles (£72 million), the costs of a corporate efficiency programme undertaken through the year (£40 million) offset in part by a net gain from the termination of an escrow agreement with a wholesale customer (£13 million).

Statutory profit after tax of £865 million (2013: £979 million) also includes a net exceptional gain of £27 million due to a tax credit and the tax effect on all adjusting items (£32 million) partially offset by a £5 million cost relating to mark to market values of derivative financial instruments.

In the prior year statutory profit after tax included a net exceptional gain of £10 million, consisting of a gain of £32 million relating to a credit note received from BT following an Ofcom determination that BT had overcharged for Ethernet services, a gain of £33 million following final settlement of disputes with a former manufacturer of set-top boxes and a gain of £9 million on the disposal of our investment in MUTV Limited. These gains were offset by costs of £56 million for a one-off upgrade of set-top boxes and a programme to offer wireless connectors to selected Sky Movies customers, in addition to costs of £33 million for a corporate efficiency programme and costs of £15 million in relation to the acquisition and integration of O2's consumer broadband and fixed-line telephony service. Other adjusting items in the prior year were a £23 million gain relating to mark to market values of derivative financial instruments and a £17 million credit relating to the tax exceptionals and the tax effect on all adjusting items.

A reconciliation of statutory to adjusted numbers is shown on page 139.

# Financial review

(continued)

## Cash flow and financial position

Adjusted free cash flow excluding campus redevelopment investment costs of £62 million (2013 £12 million) was 3% lower at £1 006 million (2013 £1 040 million) reflecting lower EBITDA and higher capital expenditure offset by a positive working capital movement and lower cash tax

Capital expenditure increased by £89 million to £543 million (2013 £454 million) due to the phasing of campus redevelopment investment, the integration and migration of acquired O2 customers and product development investment. Excluding the campus redevelopment underlying capital expenditure was £481 million (2013 £442 million)

	As at 1 July 2013 £m	Cash move- ments £m	Non- cash move- ments £m	As at 30 June 2014 £m
Current borrowings	11	-	-	11
Non-current borrowings	2 909	-	(251)	2 658
Borrowings-related derivative financial instruments	(327)	-	247	(80)
<b>Gross debt</b>	<b>2 593</b>	<b>-</b>	<b>(4)</b>	<b>2,589</b>
Cash and cash equivalents	(815)	(267)	-	(1,082)
Short-term deposits	(595)	300	-	(295)
<b>Net debt</b>	<b>1 183</b>	<b>33</b>	<b>(4)</b>	<b>1 212</b>

Net debt increased slightly to £1 212 million (2013 £1,183 million) as a result of the £750 million cash returned to shareholders via dividends and share buy-back in the year. Gross debt was £2 589 million with £1,377 million of cash and cash equivalents and short-term deposits at 30 June 2014. The Group's liquidity and headroom remain comfortable

## Balance Sheet

During the year total assets increased by £104 million to £6,449 million at 30 June 2014. Non-current assets increased by £100 million to £3 876 million primarily due to an increase of £139 million in intangible assets and property plant and equipment as a result of campus redevelopment investment, the integration and migration of acquired O2 customers and product development investment, an increase of £111 million in available-for-sale investments mainly resulting from the increase in the value of our investment in ITV plc, offset by £165 million decrease in non-current derivative financial assets which offsets against movements in non-current borrowings. Current assets increased by £4 million to £2 573 million at 30 June 2014.

Total liabilities increased by £44 million to £5 377 million at 30 June 2014. Current liabilities increased by £202 million to £2 519 million primarily due to a £263 million increase in trade and other payables offset by a £48 million decrease in current tax liabilities. Non-current liabilities decreased by £158 million to £2 858 million principally due to a £251 million decrease in the Group's non-current borrowings as a result of the strengthening of pounds sterling against the US dollar and fair value movements in the value of bonds offset by a £100 million increase in non-current derivative financial liabilities.

## Distributions to Shareholders

We have once again increased our ordinary dividend. The Directors proposed final dividend of 20.0 pence per share takes the total dividend payable in respect of the financial year to 32.0 pence per share, an increase of 7% on last year and double the level of seven years ago. Shareholders have now benefited from a decade of sustained dividend growth such that a holder of a single Sky share over that period would have received over 200 pence in dividends.

The ex-dividend date will be 13 November 2014 and subject to shareholder approval at the 2014 Annual General Meeting, the final dividend of 20.0 pence will be paid on 5 December 2014 to shareholders appearing on the register at the close of business on 14 November 2014.

At the Company's AGM on 22 November 2013 we received shareholder approval to return up to £500 million of capital to shareholders via a share buy-back. On 25 July 2014, the Company suspended its share buy-back programme.

## Post balance sheet events

On 17 July 2014 the Group sold a shareholding of approximately 6.4% in ITV plc consisting of 259,820,065 ITV shares for an aggregate consideration of approximately £481 million.

The Company announced on 25 July 2014 that it has conditionally entered into share purchase agreements (the "Acquisition Agreements") with 21st Century Fox (and its relevant subsidiaries) to acquire its 100% stake in Sky Italia Srl and its 57.4% stake in Sky Deutschland AG. The Company further announced its intention to make a voluntary cash offer (the "Offer") to the minority shareholders of Sky Deutschland AG. The Acquisition Agreements and the Offer (together the "Transactions") are conditional on, amongst other things, their approval by the Company's independent shareholders and regulatory clearances.

The total consideration for the acquisition of Sky Italia is £2.45 billion with approximately £2.07 billion to be paid in cash and the balance to be satisfied through the transfer of the Group's 21% stake in National Geographic Channel to 21st Century Fox ("21CF"). The acquisition of 21CF's shareholding in Sky Deutschland AG is for a consideration of £2.9 billion in cash, valuing Sky Deutschland at €6.75 a share. Subject to the number of Sky Deutschland AG minority shareholders that accept the Offer, the total consideration for the transaction will range from £2.9 billion to £5 billion.

For further details, see note 29 to the consolidated financial statements.



**True Detective**  
Sky Atlantic will be the exclusive home of HBO producer  
of critically-acclaimed series *True Detective* until 2020

# Principal risks and uncertainties

The Group risk register is reported formally to the Audit Committee twice a year and focused risk reporting on selected themes occurs on a quarterly basis. Additional information on the Group's internal control and risk management processes is set out in the Corporate Governance Report and the Audit Committee Report (see page 54).

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.

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.

Description of risk	Mitigation
<b>Market and competition</b> <p>The Group operates in a highly competitive environment and faces competition from a broad range of organisations. Technological developments also have the ability to create new forms of quickly evolving competition.</p> <p>A failure to develop the Group's product proposition in line with changing market dynamics and expectations could erode the Group's competitive position.</p> <p>Great content is central to Sky's product proposition and increased competition could impact the Group's ability to acquire content that its customers want on commercially attractive terms.</p> <p>Economic conditions have been challenging in recent years and the future remains uncertain. A significant economic decline could impact the Group's ability to continue to attract and retain customers.</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 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 UK 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>
<b>Regulatory breach and change</b> <p>The Group is subject to regulation primarily under UK, Irish 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 – the Group is subject to Ofcom's licensing regime under the Broadcasting Acts 1990 and 1996 and the Communications Act 2003. These obligations include the requirement to comply with the relevant codes and directions issued by Ofcom, including for example the Broadcasting Code, the Code on the Scheduling of Television Advertising and the Cross Promotions Code.</li> <li>Gambling – Alderney Gambling Control Commission ("AGCC") regulation and Gambling Act 2005 (UK).</li> <li>Platform services – as a provider of EPG and CA services, the Group is subject to regulation under the Communications Act 2003 which amongst other things requires it to provide EPG and CA services to other broadcasters on fair, reasonable and non-discriminatory terms and</li> <li>Telecommunications – the Group is subject to the General Conditions of Entitlement adopted under the Communications Act 2003 which impose detailed requirements on providers of communications networks and services.</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 our regulatory obligations and to respond to emerging requirements. This includes for example:</p> <ul style="list-style-type: none"> <li>Broadcasting – compliance controls, processes and contacts are in place in Entertainment, Movies, Sports and News services. Interaction with Ofcom is co-ordinated between the Compliance, Regulatory and Legal departments.</li> <li>Gambling – controls and processes are in place to monitor our compliance with, and our adherence to, our obligations under the AGCC regulations and the Gambling Act 2005. We are subject to regular independent audit by the AGCC against the Alderney regulations and will be applying to the UK Gambling Commission for a UK Remote Gambling Licence in accordance with recent amendments to the Gambling Act 2005.</li> <li>Platform services – processes are in place to monitor third-party broadcaster access to the digital satellite platform and to ensure that this is provided on fair, reasonable and non-discriminatory terms.</li> <li>Telecommunications – compliance controls, processes and contacts are in place overseen by the Customer Compliance Committee to monitor compliance and performance against the General Conditions of Entitlement.</li> </ul>

Description of risk	Mitigation
<p><b>Regulatory breach and change <i>continued</i></b></p> <p>The Group is also subject to generally applicable legislation including, but not limited to competition (antitrust), 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 authorities.</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.</p> <p>Please see page 44 of the Regulatory Matters section for further details.</p>	<p>The Group maintains appropriate oversight and reporting, supported by training, to provide assurance that it is compliant with regulatory requirements.</p>
<p><b>Customer service</b></p> <p>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 regards 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 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.</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>Supply chain</b></p> <p>The Group relies on a number of third parties and outsourced suppliers operating across the globe to support its supply chain.</p> <p>A significant failure within the supply chain could adversely affect the Group's ability to deliver products and service to its customers.</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>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 manages treasury risk by minimising risk to capital and providing appropriate protection against foreign exchange and interest rate movements</p> <p>Cash investment is made in line with the Group's strict treasury policy which is approved by the Audit Committee and sets limits on deposits based on counterparty credit ratings. No more than 10% of cash deposits are held with a single bank counterparty with the exception of overnight deposits which are invested in a spread of AAAf rated liquidity funds</p> <p>All non-sterling debt is swapped at inception to ensure appropriate currency and interest rate protection is in place, and trading currency risk is hedged up to five years in advance</p> <p>The Group manages its tax risk by ensuring that risks are identified and understood at an early stage and that effective compliance and reporting processes are in place</p> <p>The Group continues to maintain an open and proactive relationship with the regulating tax authorities, primarily HM Revenue &amp; Customs. The Group aims to deal with taxation issues wherever possible as they arise in order to avoid unnecessary disputes</p>
<p><b>Security</b></p> <p>The Group must protect its customer and corporate data and the safety of its people and infrastructure as well as needing to have in place fraud prevention and detection measures</p> <p>The Group is responsible to third-party intellectual property owners for the security of the content that it distributes on various platforms (Sky's own and third-party platforms)</p> <p>A significant breach of security could impact the Group's ability to operate and deliver against its business objectives</p>	<p>The Group takes measures ranging from physical and logical access controls to encryption or equivalent technologies, 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 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 standardised reporting and monthly reviews by senior management as well as cross-functional executive steering groups for major projects</p> <p>Third-party partners will, where appropriate, be engaged to provide support and expertise in our large strategic programmes, complex initiatives and for emerging technologies</p>

Description of risk	Mitigation
<b>Intellectual property protection</b> <p>The Group in common with other service providers relies on intellectual property and other proprietary rights including in respect of programming content, which may not be adequately protected under current laws or which may be subject to unauthorised use</p>	<p>We maintain an ongoing programme to support appropriate protections of our intellectual property and other rights. This includes for example, the use of automated online monitoring tools, the implementation of on-screen imprinting of content together with an active programme to protect our trade marks</p>
<b>People</b> <p>People at Sky are critical to the Group's ability to meet the needs of its customers and achieve its goals as a business</p> <p>Failure to attract or retain suitable employees across the business could limit the Group's ability to deliver its business plan commitments</p>	<p>Making Sky a great place to work is central to the Group's strategy. The Group champions diversity and develops talent through a number of activities, including the Graduate programme, Development Studio, an apprenticeship scheme and a leadership programme</p> <p>The Group has well established channels and procedures to recruit and retain its employees and to ensure that an adequate number of suitable employees work within its customer service teams and across all its operations</p> <p>Further detail on our people is set out on pages 32 to 35</p>

The Company announced on 25 July 2014 that it has conditionally entered into share purchase agreements (the "Acquisition Agreements") with 21st Century Fox (and its relevant subsidiaries) to acquire its 100% stake in Sky Italia Srl and its 57.4% (on a fully-diluted basis) stake in Sky Deutschland AG. The Company further announced its intention to make a voluntary cash offer (the "Offer") to the minority shareholders of Sky Deutschland AG. The Acquisition Agreements and the Offer (together the "Transactions") are conditional on, amongst other things, approval by the Company's independent shareholders and regulatory clearances. The risks relating to the Transactions and their impact if all relevant conditions are satisfied and they proceed to completion will be set out in a circular which will be sent to the Company's shareholders together with a notice of a general meeting of the Company containing the resolutions seeking shareholder approval for the Transactions.

# 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 opened a formal antitrust investigation into cross-border provision of pay TV services in the EU. The Commission is examining certain provisions relating to territorial protection in licence agreements between major US film studios (Twentieth Century Fox, Warner Bros., Sony Pictures, NBCUniversal and Paramount) and key European pay TV broadcasters (the Group, Canal Plus, Sky Italia, Sky Deutschland and DTS, operating under the Canal Plus brand in Spain). The Commission has not reached any conclusions at this stage and the Group is not yet able to assess whether or the extent to which this review will have a material effect on the Group.

## Wholesale must-offer obligations

On 31 March 2010 Ofcom published its decision to impose wholesale must-offer obligations on the Group (the "WMO Obligations") for the channels Sky Sports 1, Sky Sports 2, Sky Sports 1 HD and Sky Sports 2 HD (the "Affected Channels"). The WMO Obligations require the Group, amongst other things, to offer the Affected Channels on a wholesale basis to third parties which satisfy various minimum qualifying criteria (including financial, technical and security criteria). The WMO Obligations specify maximum prices that the Group may charge for Sky Sports 1 and/or Sky Sports 2. Under the WMO Obligations, the wholesale price is linked to the Group's retail price. The WMO Obligations do not specify a maximum price for Sky Sports 1 HD and/or Sky Sports 2 HD. Rather, the Group is required to offer these channels on a fair, reasonable and non-discriminatory basis. In April 2010, the Group applied to the Competition Appeal Tribunal (the "CAT") for a suspension of the implementation of the WMO Obligations. On 29 April 2010, the Group's application was resolved by way of an agreed Order from the President of the CAT (the "Order"). The terms of the Order resulted in the suspension of certain aspects of Ofcom's decision pending the outcome of the Group's substantive appeal. In summary, the effect of the Order is as follows:

- The Group is required to offer, subject to certain pre-conditions being met, the Affected Channels to each of BT Top Up TV and Virgin Media ("VM") for distribution via DTT and to VM for distribution via cable. Other parties may apply to the CAT to be added to the list of persons to whom the Group is required to offer its channels (on 23 November 2010, REAL Digital EPG Services Limited was added to the list in respect of DTH satellite distribution, but has not commenced distribution of any Sky Sports channels).

- In the event that BT Top Up TV or VM enter into a distribution agreement for Sky Sports 1 and/or Sky Sports 2 under the WMO Obligations, the distributor is required to pay the Group the equivalent of the maximum price the Group may charge for the channel(s) under the WMO Obligations. The difference between that price and the rate card price set by the Group will be paid into escrow.

On 8 August 2012, the CAT handed down its judgment on the Group's appeal against Ofcom's decision to impose the WMO Obligations (the "Pay TV Judgment"), publishing its full judgment on 26 October 2012. The CAT found that "Ofcom's core competition concern is unfounded" (Ofcom had found that the Group deliberately withheld wholesale supply of its Premium Channels) and that accordingly the Group's appeal must be allowed.

On 26 April 2013, BT was granted permission to appeal the Pay TV Judgment to the Court of Appeal. The Court of Appeal handed down judgment in BT's appeal, and the Group's cross-appeal on whether Ofcom had the power to impose the WMO Obligations, on 17 February 2014. The Court of Appeal dismissed the Group's cross-appeal and allowed BT's appeal. The Court of Appeal found that Ofcom's decision contained a further competition concern in relation to the Group's rate card prices and discounts to those prices, and that the CAT should have considered that concern. It therefore remitted that issue to the CAT for further consideration. While the CAT's finding that Ofcom's core competition concern was unfounded remains undisturbed, the WMO Obligations (as modified by the Order) continue in force pending the CAT consideration of the further issue remitted to it. However, the Group has agreed with a major wholesale customer to terminate the escrow agreement and release funds in escrow to the parties.

The Group has applied for permission to the Supreme Court to appeal the judgment of the Court of Appeal, and a decision on that application is pending. The CAT has indicated that it is not minded to hear the remitted issue until the outcome of the Group's application to the Supreme Court is known.

Ofcom has separately announced that it will review the WMO Obligation in light of sector developments since Ofcom's decision to impose the WMO Obligation in 2010.

BT also made an application on 11 April 2014 to the CAT to vary the Order such that the WMO Obligations would extend to distribution on BT's Internet Protocol Television ("IPTV") platforms "Cardinal" and "BT YouView". That application, which Sky opposed, was heard on 23 July 2014.

The Group is currently unable to determine whether and to what extent, the appeals concerning the WMO Obligations and BT's application to vary the Order would be successful, and it is not possible for the Group to conclude on the financial impact of the outcome at this stage. However, should the outcome of these processes be adverse to the Group, this may have a significant effect on the financial position or profitability of the Group.

### Ofcom Competition Act investigation

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

In its complaint, BT also made an application for interim measures against the Group, either to restrain the Group from insisting on the wholesale supply of Sky Sports 1 and Sky Sports 2 to BT's YouView platform being conditional on BT wholesaling BT Sport channels to the Group or to mandate Sky to provide wholesale access to BT to Sky Sports 1 and Sky Sports 2 on equivalent terms to those which the Group has already agreed for other platforms. Ofcom refused BT's application for interim measures on 31 July 2013.

Ofcom's investigation of BT's complaint is continuing.

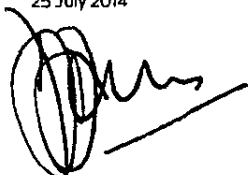
The Group is currently unable to determine the outcome of Ofcom's investigation or its financial impact, however should the outcome be adverse to the Group this may have a significant effect on the financial position or profitability of the Group.

The strategic report was approved by the Board and signed on its behalf by the Chief Executive Officer.

By order of the Board

Jeremy Darroch  
Chief Executive Officer

25 July 2014



### 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, Direct-to-Home ("DTH") customer growth, Over-the-top ("OTT") customer growth, Multiscreen, On Demand, NOW TV, Sky Go, Sky Go Extra, Sky+ Sky+HD and other services, churn, revenue, profitability and margin growth, cash flow generation, programming costs, subscriber managements 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 these results 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.

# Board of Directors



## Key

- Audit Committee
- ▲ Biggier Picture Committee
- ◆ Corporate Governance & Nominations Committee
- Remuneration Committee
- † Committee Chairman

### 1 Nick Ferguson, CBE (65) ◆ ●

Chairman

Nick was appointed to the Board as a Non-Executive Director in June 2004 and became Chairman in April 2012. Nick has previously served as Deputy Chairman and Senior Independent Non-Executive Director.

#### Experience

Nick brings extensive leadership experience from the private equity and investment sectors. Nick was co-founder and instrumental in the development of Schroder Ventures (the private equity group which later became Permira) of which he served as Chairman from 1984 to 2001. He later served as Chairman of SVG Capital plc, a public quoted private equity group from April 2005 to November 2012. Nick has a long-standing interest in the arts and philanthropy, and served as Chairman of the Courtauld Institute of Art for ten years before retiring in July 2012.

#### External Appointments

Nick is Chairman of Alta Advisers Limited, an investment advisory firm, a position he has held since January 2007. He is also Chairman and Founder of the Kilfinan Group which offers mentoring by Chairmen and CEOs to Heads of Charities. Nick is a Fellow of Winchester College.

### 2. Jeremy Darroch (52)

Chief Executive Officer

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

#### 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 (DSG), formerly Dixons Group plc. Prior to DSG he 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 (2006-2013).

#### External appointments

In February 2014, Jeremy was appointed Non-Executive Director of Burberry Group plc and serves as a member of the Audit, Remuneration and Nominations committees.

Jeremy is a Business Member of the National Centre for Universities and Business.

### 3 Andrew Griffiths (43)

Chief Financial Officer

Andrew joined Sky in 1999 and held a number of senior finance roles prior to his appointment as Chief Financial Officer and Executive Director in April 2008. In addition to his role as CFO, Andrew has executive responsibility for Sky's commercial businesses, including advertising, data services, WiFi and subscription services to commercial customers.

#### Experience

Prior to joining Sky, Andrew was at Rothschild, the investment banking organisation, where he provided financial and strategic advice to corporate clients in the technology, media and telecommunications sector. Andrew is a qualified chartered accountant and has a degree in law from Nottingham University.

#### External appointments

In March 2014, Andrew was appointed Non-Executive Director of Just Eat plc. He serves as Senior Independent Non-Executive Director, Chairman of the Audit Committee and member of the Remuneration and Nominations Committees.

Andrew is a member of the 100 Group of Finance Directors and Advisory Board of the Oxford University Centre for Business Taxation.

### 4 Chase Carey (60)

Non-Executive Director

Chase joined the Board as a Non-Executive Director in January 2013.

#### Experience

As President and Chief Operating Officer of 21st Century Fox, Chase has extensive knowledge and experience of the international media and pay TV sectors. Chase is former President and Chief Executive Officer of DIRECTV, where he led the operations and strategic direction of DIRECTV. Prior to joining DIRECTV, he 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

In addition to his role at 21st Century Fox, Chase is a member of the Supervisory Board of Sky Deutschland AG.



# **5 Tracy Clarke (47) ■ ▲ ♀ †**

Independent Non-Executive Director  
Tracy joined the Board as a Non-Executive Director in June 2012.

## **Experience**

Tracy brings a wide range of operational experience and oversight for corporate affairs, brand and marketing, media relations, human resources, legal and compliance matters in her role at Standard Chartered Bank. Tracy has served as a Non-Executive Director of SC First Bank in Korea (2005-2007) and Non-Executive Director of Eaga plc (2007-2011), where she chaired the Remuneration Committee.

## **External Appointments**

Tracy is a member of the executive management group and is Director for Compliance, People and Communications at Standard Chartered Bank. Tracy is a trustee of WORKing for YOUTH, a charity working with business to create job opportunities for young people. Tracy is a member of the Institute of Financial Services and a Fellow of the Chartered Institute of Personnel and Development.

# **6 David F DeVoe (67)** Non-Executive Director

David joined the Board as a Non-Executive Director in December 1994.

## **Experience**

David brings a wealth of executive and finance experience from the media sector. David served as Chief Financial Officer of News Corporation (subsequently renamed 21st Century Fox) for over 20 years and during that time was appointed Senior Executive Vice President until he stepped down from both roles in June 2013. David is a former director of Gemstar TV Guide (2001-2008) and DirecTV (2003-2008).

## **External Appointments**

David is Senior Advisor to the Board of 21st Century Fox.

# **7 Martin Gilbert (59) ■ ▲ †**

Independent Non-Executive Director  
Martin was appointed to the Board as a Non-Executive Director in November 2011.

## **Experience**

Martin has extensive investment, finance and executive leadership experience through his role as co-founder and Chief Executive Officer of Aberdeen Asset Management PLC. Martin 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 a member of the Scottish Government's Financial Services Advisory Board.

# **8 Adine Grate (53) ■ ●**

Independent Non-Executive Director  
Adine was appointed to the Board as a Non-Executive Director in July 2013.

## **Experience**

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

## **External Appointments**

Chairperson of NASDAQ OMX Swedish Listing Committee and Vice Chairperson of AP7, a Swedish pension and savings asset management company. Adine is a Director of Three (Scandinavia), a mobile telecommunications and broadband operator. SOBI AB, an international specialty healthcare company. Sampo Oy, a leading financial and insurance institution and Swedavia AB, an airport operator. Adine is Chairperson of non-profit organisations Friends of a Design museum and the Swedish Dance Museum.

# **9 Andy Higginson (57) ■ ● †**

Senior Independent Non-Executive Director

Andy was appointed to the Board as Non-Executive Director in September 2004 and has been Senior Independent Director since April 2012.

## **Experience**

Andy brings significant commercial, retail and leadership experience to the Board. Andy is a former Director of Tesco plc having spent 15 years at the company first as Finance and Strategy Director and latterly as Chief Executive of their Retailing Services business. His early career was with Unilever, Guinness, Laura Ashley and the Burton Group.

## **External Appointments**

Andy is Chairman of Poundland Group plc and N Brown plc and is a Non-Executive Director of Woolworth SA and the Rugby Football Union. He is a member of the 100 Group of Finance Directors.

# **10 Dave Lewis (49) ■ ▲ ●**

Independent Non-Executive Director  
Dave was appointed to the Board as a Non-Executive Director in November 2012.

## **Experience**

Dave is an experienced executive with strong operational expertise and has held a variety of leadership roles at Unilever in Europe, South America and Asia, including President for the Americas and Chairman of Unilever UK and Ireland.

## **External Appointments**

Dave is President, Personal Care for Unilever plc, where he also sits on the Unilever Leadership Executive.

# **11 James Murdoch (41) ■ ▲ †** Non-Executive Director

James was appointed to the Board as a Non-Executive Director in February 2003. He served as Chief Executive Officer and Executive Director (2003-2007) and as Chairman from 2007 until April 2012.

## **Experience**

James is Co-Chief Operating Officer at 21st Century Fox and brings significant media sector knowledge and experience. Between 2000 and 2003, he was Chairman and CEO of Star Group Limited and held Non-Executive Director roles at GlaxoSmithKline plc (2009-2012) and Sotheby's (2010-2012).

## **External Appointments**

As Co-Chief Operating Officer, James is a member of the Board of Directors and Executive Committee at 21st Century Fox. He also serves as a member of the Board of News Corporation and is a Non-Executive Director of Yankee Global Enterprises.

# **12 Matthieu Pigasse (46) ■**

Independent Non-Executive Director

Matthieu was appointed to the Board as Non-Executive Director in November 2011.

## **Experience**

Matthieu is Deputy CEO of Lazard in France and Vice Chairman of Lazard in Europe. He has also served as civilian administrator of the French Ministry of Economy and Finance.

## **External Appointments**

In addition to his role at Lazard, Matthieu has a number of interests in media and publishing, notably Le Monde and the Huffington Post (France). Matthieu is a Board member of Group Lucien Barrière SAS, an operator of luxury hotels and restaurants. Denchabourg, a recycling and maintenance services business and Relax News, a French news agency dedicated to leisure news.

# **13 Danny Rimer (43)**

Independent Non-Executive Director  
Danny was appointed to the Board as a Non-Executive Director in April 2008.

## **Experience**

Danny brings significant international investment, finance experience and knowledge of internet infrastructure software and services technology communications and e-commerce businesses through his role as General Partner of the venture capital firm Index Ventures Management LLP (Index Ventures). Prior to joining Index Ventures, he was a General Partner of The Barksdale Group.

## **External Appointments**

Danny serves on a number of boards including Etsy Inc, First Dibs, Inc, Flipboard Inc, FON Wireless Limited, Nasty Gal, Inc, RightScale Inc, and Viagogo.

# **14 Arthur Siskind (75) ●** Non-Executive Director

Arthur was appointed to the Board as a Non-Executive Director in November 1991.

## **Experience**

Arthur brings over 30 years' experience gained through executive and legal counsel roles at News Corporation (subsequently renamed 21st Century Fox). Arthur is a highly experienced legal practitioner and member of the Bar of the State of New York since 1962.

## **External Appointments**

Senior Advisor to the Chairman since January 2005 and Director Emeritus since October 2012 of 21st Century Fox.

# **15 Andy Sukawaty (59) ●**

Independent Non-Executive Director  
Andy was appointed to the Board as a Non-Executive Director in June 2013.

## **Experience**

Andy is Executive Chairman of Innmarsat plc, global mobile satellite communications provider and has previously held a number of senior management positions in the telecommunications industry including, Chief Executive and President of Sprint PCS and Chief Executive of NTL (UK) and roles at US West and AT&T.

## **External Appointments**

In addition to his role at Innmarsat plc, Andy is Non-Executive Chairman of the Supervisory Board of Ziggo NV, a Dutch national media and communications company.

# Corporate governance report

## Chairman's overview



On behalf of the Board it gives me great pleasure to introduce this year's corporate governance report

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.

Following last year's external Board evaluation and in line with corporate governance best practice, during the year an internal Board evaluation was undertaken. The feedback from the evaluation confirmed that the Board and each of its Committees continue to operate effectively and that each Director continues to make an effective contribution and retains a strong commitment to their role. The resulting development themes that arose from the evaluation are discussed on page 57.

The Board has established arrangements to evaluate whether the information in the annual report is fair, balanced and understandable. Further detail of these arrangements can be found on page 55. As a result of this, the Board considers the annual report and accounts taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

During the year we have continued our work in promoting greater and more effective engagement with our shareholders. Andy Higginson, our Executive Directors and I, have met with institutional investors and analysts. Along with Tracy Clarke, Chairman of the Remuneration Committee, we will continue to engage with shareholders over the course of the coming financial year.

**Nick Ferguson**  
Chairman

## Compliance with the UK corporate governance code

The UK Corporate Governance Code as revised in September 2012 (the "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 fully complied with the provisions and applied the main principles of the Code for the whole of the year ended 30 June 2014. This section of the Annual Report, along with the Directors' remuneration report on pages 59 to 76, the Directors' report and other statutory disclosures on pages 77 to 80, provide details of how the Company has applied the main principles.

## Leadership

### Role of the Board and its Members

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

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

The Directors of the Board are selected on the criteria of proven skill and ability in their particular field of endeavour and a diversity of outlook and experience which directly benefits the operation of the Board as the custodian of the business. A full biography of each Board member is provided on pages 46 and 47.

### Roles and responsibilities

The roles of the Chairman and CEO 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

Nick Ferguson 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 Chief Executive Officer

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.

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

The role of the SID, currently carried out by Andy Higginson, is responsible for providing support and counterbalance to the role of the Chairman and provides an additional point of contact for shareholders.

#### Non-Executive Directors

Chase Carey, Tracy Clark, David DeVoe, Martin Gilbert, Adine Grate, Andy Higginson, Dave Lewis, James Murdoch, Matthieu Pigasse, Danny Rimer, Arthur Siskind and Andy Sukawaty collectively are responsible for constructively challenging the Executive Directors and overseeing the delivery of the Company's strategy within the risk and control framework.

### Company Secretary

Chris Taylor has been Company Secretary since November 2012 and is responsible for the following in respect of effective Board operation

- To ensure good information flows within the Board and its committees between senior management and Non-Executive Directors,
- To facilitate Director induction and assisting with professional development and
- To advise the Board through the Chairman of all corporate governance obligations and developments in best practice

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

### Environment supportive of challenge

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

### Board Agenda

In addition to its reserved and standing matters 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 Company'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
- Existing and new products services and technological developments

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

### Board delegation

The Board has delegated specific responsibilities to Board committees notably the Audit, Remuneration Corporate Governance & Nominations and the Bigger Picture committees. Each committee's terms of reference can be found on the Company's corporate website

The Audit Committee has responsibility for oversight of corporate reporting risk management and the Company's relationship with its auditor. 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 40 to 43. For further details, the Audit Committee Report can be found on pages 53 to 55

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 59 to 76

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 56 and 57

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 pages 57 to 58

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. It is chaired by the CEO and comprises the CFO and other senior executives from within the Group

# Corporate governance report

(continued)

## 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.

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

### Notes

- 1 Chase Carey was unable to attend a Board meeting due to conflicting business arrangements.
- 2 Martin Gilbert was unable to attend Board and Committee meetings due to prior Aberdeen Asset Management engagements.
- 3 Adine Grate was appointed to the Audit committee on 26 July 2013 and was not eligible to attend the meeting on the prior day.
- 4 Andy Higginson was unable to attend Committee meetings due to conflicting Rugby Football Union board meetings.
- 5 Matthieu Pigasse was unable to attend Board and Committee meetings and the Annual General Meeting due to overseas travel on Lazard business and personal reasons.
- 6 Danny Rimer was unable to attend a Board meeting due to prior Index Ventures engagements. Danny stepped down as Chairman and member of the Remuneration Committee and as member of the Corporate Governance & Nominations Committee following the Company's AGM on 22 November 2013.

## Effectiveness

### Board composition and independence

The Board currently comprises 15 Directors, made up of two Executive Directors and 13 Non-Executive Directors. At least half of the Board of Directors are determined to be independent by the Board in accordance with provision B1.2 of the Code. On appointment the Chairman met the independence criteria set out in provision B1.1 of the Code. Biographies of each of the Directors are set out on pages 46 to 47.

Chase Carey, David DeVoe, James Murdoch and Arthur Siskind 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 significant contribution to Board discussion.

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

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

### Board Composition



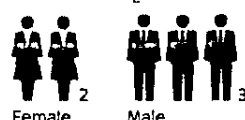
- Chairman
- Executive Directors
- Independent Non-Executive Directors
- Other Non-Executive Directors

### 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 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 56 to 57.

The Board has published a statement of its intention to increase female representation on the Board which can be found on the Company's corporate website. As required by company legislation, a table on page 78 illustrates gender diversity amongst the Board.

#### Diversity ratio of Directors appointed in last 2 years



#### Length of time served on the Board (excluding Executive Directors)



#### Industry/background experience<sup>1</sup>



<sup>1</sup> Directors may fall into one or more categories

### Directors' reappointment

In respect of Code provision B.71, all Executive and Non-Executive Directors will retire and offer themselves for reappointment at the Company's 2014 AGM, with the exception of Andy Higginson who will be retiring from the Board.

### External directorships

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

Jeremy Darroch was appointed as an independent non-executive director of Burberry Group plc on 5 February 2014 and is a member of the audit, nominations and remuneration committees.

Andrew Giffith was appointed as an independent non-executive director of Just Eat plc on 12 March 2014. Andrew serves as senior independent director, chairman of the audit committee and is a member of the remuneration and nominations committees. Details of pay in respect of these appointments can be found in the Directors' Remuneration Report on page 66.

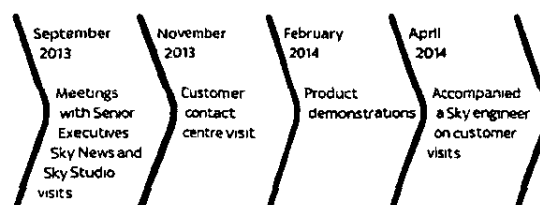
### Time commitment

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's performance. During the year, Directors have received presentations from a number of areas of the business including Customer Group, Sky Media, Sky Sports and Strategic Planning Group. The Chairman meets with the Directors throughout the year to review and agree their individual training and developmental needs.

During the year, the Company Secretary, in consultation with the Chairman and CEO, facilitated Adine Grates' induction programme. The elements of the programme are detailed below:



In addition to this, various presentations from prior Board meetings were made available to Adine in order to improve her understanding of the Company and the competitive and regulatory landscape in which it operates. In view of her position as a member of the Audit Committee, Adine met with the external auditors as part of her induction.

### Board evaluation

In line with corporate governance best practice and following the external Board evaluation carried out by Alice Perkins of JCA Group last year, an internal Board evaluation was undertaken during the year. The process was facilitated by Andy Higginson, our Senior Independent Director and Chairman of the Corporate Governance & Nominations Committee. Further detail of the evaluation process can be found in the Corporate Governance & Nominations Committee report on page 57.

# Corporate governance report

## (continued)

### 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 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.

### 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 141 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.

#### 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 Chairman, CEO, CFO and Andy Higginson have attended meetings with investors as appropriate. The Company also makes presentations to analysts and investors around the time of the half-year and full-year results announcement. Conference calls are held with analysts and investors following the announcement of the first quarter and third quarter results, and presentations are made during the year to many existing or potential shareholders at investor conferences. The Company hosts an annual meeting for its major shareholders to discuss remuneration policy and this year, as a result of new remuneration regulations, the Company invited its major shareholders to comment on the proposed changes to its remuneration policy.

#### The Annual General Meeting

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 2013 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



We have had a busy year as we continued to focus on the financial performance of the Company, internal audit, external audit, risk management, compliance and financial governance

We were pleased to welcome Adine Grate as a member of the Committee in July 2013. Adine has extensive financial and investment management experience and we value her contribution at Committee meetings. We have continued to receive a number of presentations from the management of different business areas, which this year included Sky Bet, Product Design and Development and the Sales and Marketing Groups to improve our understanding of their operations, the risks they face and how those risks are managed.

We reviewed the integration approach of the O2 consumer broadband and fixed-line telephony business both at the start and following its completion, and received a range of presentations relating to data governance, health and safety, fraud and cyber security. We also received regular reports from the internal audit function and external auditor.

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 performance, business model and strategy and a description of how we approached this can be found below.

There were six meetings during the year and after each Committee meeting I gave an oral update to the Board on the key issues discussed during our meetings. The Committee also has private meetings with the Company's external auditors throughout the year.

You can find additional information of how we have carried out our role and responsibilities within the remainder of this report. The Committee's terms of reference are available on the Company's corporate website.

**Martin Gilbert**  
Committee Chairman

### Committee composition

Martin Gilbert (Chairman)  
Adine Grate (appointed on 26 July 2013)  
Andy Higginson  
Dave Lewis  
Matthieu Pigasse

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

### Attendance at Committee Meetings

David DeVoe and Arthur Siskind have a standing invitation to attend meetings. However, their attendance at these meetings is as observers only and in a non-voting capacity. The 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 centred on the following items:

- Review and recommendation to the Board of the quarterly interim and full-year financial statements
- The review and recommendation to the Board of the dividend policy and proposed payments
- Liquidity and going concern review
- Review and recommendation of the budget to the Board
- Annual reporting – due diligence procedures and corporate governance updates
- The external auditors' assessment of the effectiveness of the external audit process, terms of engagement and scope of audit
- Auditor independence and the policy on the provision of non-audit services by the external auditor
- Audit plans and findings of external and internal audits
- 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 from internal audit on the status of Senior Accounting Officer (SAO) certification work to ensure SAO compliance
- Post-acquisition review of the O2 consumer broadband and fixed-line telephone business
- Quarterly reports of all related party transactions during the year in excess of £100,000 in value
- Review and oversight of the Group risk register, risk methodology and risk management systems and processes
- Monitoring and reviewing the effectiveness of the Group's internal audit function and controls
- Taxation, security, fraud, whistleblowing, cyber security, health and safety, data protection and internal audit updates

# Corporate governance report

## (continued)

### Significant accounting issues

When considering the annual financial statements, the Committee reviewed the significant areas of judgement and the Group's critical accounting policies as set out on pages 90 and 96 with particular focus on the following:

#### Retail subscription revenue

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

In addition, the Committee received presentations on the Group's sales and marketing operations and on new revenue streams including NOW TV. The Committee considered management's policy and presentations, 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 reviews the policy for the recognition of content costs and seeks assurances from management and takes 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. In the year, the Committee received a presentation from management that reviewed the accounting methodology for the different range of programme genres by comparing viewing profiles and industry benchmarks, to ensure that the expense recognised is consistent with the associated relative value received from broadcast. The Committee is satisfied that the policies have been applied consistently and are aligned to industry practice.

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

The Committee considered the Group's policies and sought assurances from management that the Group's project accounting controls are operating as intended and that spend capitalised as Property, Plant and Equipment and Intangible assets meets the relevant accounting requirements. During the year, the Committee also received presentations on the Group's principal project functions including product design and development and technology. The Committee also considered the report from the external auditor. The Committee is satisfied that the Group has followed 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 October 2005. During the period under review, no significant 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 2014 and up to the date on which the financial statements were approved. This review relates to the Company and its subsidiaries and does not extend to joint ventures. The Committee meets on at least a quarterly basis with the Group's Director, Audit, Risk Management and Compliance and the external auditors.

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 Senior Accounting Officer (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 2014 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 Committee formally reviews the Group Risk Register twice a year and there is a rolling programme where senior executives from the business present their risk management plans.

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 Group's principal risks and uncertainties are detailed on pages 40 to 43.



### Fair, balanced and understandable assessment

To enable the Board to confirm that the Annual Report taken as a whole is fair, balanced and understandable, a process was approved by the Committee which involved establishing a steering committee consisting of stakeholders from Corporate Affairs, Investor Relations, Group Finance, the Bigger Picture, Company Secretariat and Legal which had oversight of the production of the Annual Report. Comprehensive due diligence procedures and guidance were developed to assist with the review process and requirements of the Code. The Disclosure Committee maintained oversight of the review process and submitted certification to the Committee prior to approval that the necessary compliance requirements had been met.

### Disclosure controls 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 CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

### Auditor independence

For the year ended 30 June 2014, the Committee has reviewed audit independence and scope of non-audit services and independence safeguards with Deloitte LLP ("Deloitte"), the Group's external auditor. As part of the review, the Audit Committee has received and reviewed confirmation in writing that, in Deloitte's professional judgement, Deloitte is independent within the meaning of all UK regulatory and professional requirements and the objectivity of the audit engagement partner and audit staff is not impaired.

The Committee was satisfied throughout the year that the objectivity and independence of Deloitte was not in any way impaired by either the nature of the non-audit related services undertaken during the year, the level of non-audit fees charged, or any other facts or circumstances. Audit and non-audit services provided during the year were approved by the Committee. An analysis of auditor remuneration is disclosed in note 5 to the consolidated financial statements.

### Audit and non-audit services

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

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

The policy defines the types of services falling under each category and sets out the criteria which need to be met and the internal approval mechanisms required to be completed prior to any engagement. An analysis of all services provided by the external auditor is reviewed by the Committee on a quarterly basis.

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

- Comfort procedures in relation to debt programme update
- Assurance of certain KPIs for the Bigger Picture Review

### Effectiveness of external auditor process

During the year, the effectiveness of the audit 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
- Quality of reporting and communications to the Audit Committee

The responses to the assessment were discussed, which confirmed that Deloitte are performing as expected. Deloitte continue to demonstrate strengths in the majority of these areas.

There are no significant findings from the assessment and Deloitte continue to carry out an effective and robust external audit.

### Audit partner rotation

The external auditor is required to rotate the audit partner responsible for the engagement every five years. The current lead partner started his term of office in relation to the 2010/11 financial year. As the audit partner enters the fifth year of engagement with the Company, it has been agreed that a new audit partner be invited to Committee meetings to ensure a smooth and orderly transition. In terms of orderly succession and to safeguard challenge and objectivity, the current audit partner will rotate after the 2014/15 audit.

### Tenure of external auditor

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 before June 2020. The Committee is satisfied with the quality of challenge, scepticism and execution by the current auditors and takes into account the Committee's annual assessment of the quality of the external audit process, the Company's strategic plans and the implementation of the EU audit directive in the UK.

# Corporate governance report

(continued)

## Corporate Governance & Nominations Committee Chairman's overview



We have had an active year, continuing to grow and diversify our Board and Committees

We were pleased to recommend Tracy Clarke as Chair of the Remuneration Committee in place of Danny Rimer who stepped down as both Chairman and a member of the Remuneration Committee following the Company's 2013 AGM. We further recommended Adine Grate to the Board of Directors and as a member of the Audit Committee.

This year an internal Board evaluation process was undertaken following on from last year's external evaluation. The results of the evaluation were encouraging and confirmed that the Board and its Committees continue to operate effectively with each of the Directors making valued and effective contributions.

The Board as a whole welcomes the opportunity to adapt to innovations and change within the field and continues to actively progress 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 meetings held during the year and after each Committee meeting I reported to the Board on the key issues discussed during our meetings. You can find further information of how we have carried out our role and responsibilities within the remainder of this report. The Committee's terms of reference are available on the Company's corporate website.

Andy Higginson  
Committee Chairman

### Committee composition

Andy Higginson (Chairman)  
Nick Ferguson  
Dave Lewis  
Arthur Siskind

### Attendance at Committee Meetings

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

### Corporate Governance & Nominations Committee Agenda

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

- Board and Committee composition
- Internal Board evaluation
- Review of Non-Executive Director independence
- Review of Directors' conflicts of interest
- Succession planning
- Changes to the Listing Rules for companies with controlling shareholders

### Activities during the year

#### Recruitment processes

During the year the Committee has continued to review the composition of the Board and its committees. There is a formal recruitment process to identify candidates who meet the Board's criteria.

In the case of Adine Grate, the most recent appointment to the Board, the Committee engaged with Ridgeway Partners, an external recruitment consultancy to help identify possible candidates and run the recruitment process. Ridgeway Partners has no other connection with the Company. The timing and recruitment process of Adine's appointment was started in the prior year and was completed in this financial year. The recruitment process includes:

- Briefing of external recruitment consultancy to ensure greater understanding of the Company's requirements
- Review of a shortlist of potential candidates
- Review of candidate's background, experience and skill set, and potential areas for strengthening the Board
- Candidate interviews with members of the Committee and the CEO

#### Committee composition

During the year the Committee reviewed the composition of all Committees and it was agreed that Adine Grate be appointed to the Audit Committee on 26 July 2013 and Danny Rimer would step down as Chairman and member of the Remuneration Committee and as a member of the Corporate Governance & Nominations Committee following the Company's AGM in November 2013. Tracy Clarke was identified as a suitable successor and she succeeded Danny Rimer as Chairman of the Remuneration Committee after the Company's AGM. On 24 July 2014, Martin Gilbert stepped down as a member of the Remuneration Committee and Adine Grate was appointed in his place with effect from 25 July 2014.

**Board evaluation**

During the year time was scheduled with each of the Directors to discuss the following

- the effectiveness of the Board as a whole
- the mix of skills and experience on the Board
- the effectiveness of Board processes and procedures
- development of the Company's strategy, and
- the performance of Board committees

The Chairman of the Committee reported the findings of the evaluation to the Committee and the Board and noted a number of strengths

- The quality and structure of the Directors' induction programme was comprehensive
- The quality of information presented to the Board was of a high standard
- The most recently appointed members of the Board had embedded well and had strengthened the diversity of the Board
- Board strategy sessions' insight and prioritisation of projects had enriched Board discussion

Overall it was concluded that the Board and its Committees continues to operate effectively

**Independence**

During the year all Non-Executive Directors were asked to complete questionnaires to enable the Committee to determine their independence. The Committee reviewed the questionnaires and recommended to the Board that there be no changes to the independent status of the current Independent Non-Executive Directors. The Non-Executive Directors who are considered by the Board to be independent are clearly identified on pages 46 to 47.

As noted on page 50 James Murdoch, Chase Carey, David DeVoe and Arthur Siskind are not considered to be independent within the meaning of the Code; however, following the evaluation the Committee considers and agrees that each of these directors continue to make a significant contribution to Board and Committee discussions.

The Committee's review took into consideration the fact that Andy Higginson has served on the Board for more than nine years. Provision B11 of the Code states that serving more than nine years could be relevant to the determination of a Non-Executive Director's independence. The Committee concluded that Andy Higginson continues to demonstrate the essential characteristics of independence expected by the Board and that there are no relationships or circumstances that are likely to affect, or could appear to affect, his judgement. In July 2013 the Board agreed that he should remain on the Board for an additional year in order to maintain a degree of certainty and smooth handover of Board and Committee experience and knowledge and help to integrate the recently appointed Independent Non-Executive Directors. Andy Higginson will step down at this year's AGM.

**Directors' conflicts**

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

## Bigger Picture Committee

### Chairman's overview



During the year, the Committee has continued to provide strategic leadership in relation to Sky's Bigger Picture initiatives.

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

I am pleased to report that the Committee has seen significant progress across all areas of the programme from the launch of Sky Academy in November 2013, to reducing environment impacts and working with suppliers to strengthen our approach to responsible sourcing.

In 2013 once again we were identified as one of the leading companies in the Publishing Media sector of the Dow Jones Sustainability Index.

Progress against all of our Bigger Picture commitments and initiatives is detailed on pages 27 to 31 and at [sky.com/biggerpicture](http://sky.com/biggerpicture).

The Committee believes that the focus and scale of the work being done continues to make a significant contribution to Sky's ability to build a better business for the long term.

**James Murdoch**  
Committee Chairman

**Composition of the Committee**

James Murdoch (Chairman)  
Tracy Clarke  
Dave Lewis

**Attendance at Committee Meetings**

The CEO, CFO, senior executives, representatives from Corporate Affairs and the Bigger Picture team attend meetings at the request of the Chairman. The Deputy Company Secretary acts as Secretary to the Committee. The Committee's terms of reference are available on the Company's corporate website.

**Bigger Picture Committee Agenda**

Focus for the year has centred on the following items:

- A review of consumer tracker results
- Responsible cycling and impact of our partnership with British Cycling
- Sky Rainforest Rescue
- Sky Arts Ignition
- Sky Academy
- Environmental performance

# Corporate governance report

(continued)

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## Activities during the year

The Committee oversaw a number of key developments in relation to Sky's Bigger Picture initiatives notably the launch of Sky Academy with a target to help up to one million young people fulfil their potential by 2020. The development of Sky Academy as the hub for Sky's commitment to enable young people has supported the recommendation of the Committee for greater focus on a clear set of initiatives with a common goal. The Committee noted the early progress of all strands of Sky Academy initiatives including reaching over 20 000 young people since its launch through Sky Academy Skills Studios and expanding into Scotland extending our Sky Academy Scholarships offering with the launch of TV scholarships reaching more than 95 000 young people through Sky Sports Living for Sports initiatives expanding into Ireland and making a strong start against our commitment to doubling the number of career opportunities available for young people within Sky.

The Committee also reviewed progress against Sky's environment targets and accompanying commitments. The Committee noted that there has been a further reduction in carbon intensity by 2% over the last year and they discussed the potential carbon savings of the campus redevelopment plans and progress in implementing these plans. See page 79 for more information on our emissions.

Over the year the Committee reviewed the positive progress made in raising consumer awareness and favourability through the Bigger Picture initiatives. The independent quarterly mass consumer survey shows further growth in awareness of Bigger Picture initiatives, increasing to almost 70% of customers and almost half of prospective customers.

The Committee expressed its support for the commencement of the next phase of the cycling partnership with British Cycling after a great year of strong pro-cycling and grassroots performance and staff and stakeholder involvement. The Committee encouraged the business to take a stronger position in promoting safe cycling through Sky's partnership with British Cycling particularly around the use of helmets in marketing campaigns and focus on mutual respect between cyclists and motorists.

The Committee oversaw the success of the Sky Rainforest Rescue partnership with WWF in reaching the overall campaign fundraising target of £8 million a year early. The partnership continues to drive efforts for the project area in Acre Brazil and activities to raise awareness in the UK of rainforest deforestation in the Amazon.

The Committee reviewed the achievements of the Sky Arts Ignition Memory Palace project with the V&A, along with the launch of a groundbreaking digital project and on-air programming in Ireland in partnership with Rough Magic and Opera Touring Company.

The Committee continues to note the positive economic social and environmental contribution of Sky in the UK and Ireland through its approach to seeing the bigger picture. For more information go to [sky.com/biggerpicture](http://sky.com/biggerpicture).

# Directors' remuneration report

## Annual statement from the Chairman



Dear Shareholder,

On behalf of the Board I am pleased to present our report on Directors' remuneration for the year ended 30 June 2014 which shareholders will be asked to approve at the 2014 AGM. The report takes account of the new regulations, how we have implemented our policy over the past 12 months and our proposed approach to executive remuneration for the next three years. Having been appointed to the role of Committee Chair in November I was keen to gauge the views of our larger institutional shareholders on Sky's approach to executive remuneration. Therefore, over the summer I wrote to our major shareholders outlining the changes we were proposing to make to our remuneration policy and met with the institutional voting bodies. This process of engagement was very constructive.

Our approach to remuneration has served Sky and its shareholders extremely well for many years. Our sustained focus on paying for performance with a high ratio of variable pay to fixed pay and the consistency in which we have applied our policy has delivered outstanding business results. Our remuneration philosophy continues to motivate and retain our Executive Directors providing stability to the Company in an increasingly competitive and changing landscape. It also aligns the interests of the Executive Directors closely to those of our shareholders.

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

Awards under the Long Term Incentive Plan are determined annually. The normal award for both Executive Directors has remained the same for a number of years. This year the Committee decided to increase the level of award granted to the CFO in recognition of his broader role and increasing contribution. Awards vest every other year which is atypical and this year there was no vesting of share awards relating to the current performance period. This means that if the business performs well next year total remuneration will spike when share awards are due to vest. It will then go down again the following year when there is no vesting.

The Committee reviews the design and effect of this plan regularly and continues to support the current approach as it provides consistency and a good balance between long and short-term thinking. Grants are made as a fixed number of shares rather than as a multiple of salary. This de-links the award from automatically increasing with salary and is key in driving growth and achieving strong alignment with returns to shareholders.

Strong performance against key metrics has underpinned our bonus decisions again this year. Against a challenging backdrop we have added 23% more products and 33% more customers, excluding the acquired O2 consumer and product base. Our investment to accelerate take up and usage of new connected TV services is delivering well, with three million Sky HD boxes connected over the year. As a consequence adjusted revenue excluding ESPN is up 7% to £76 billion and adjusted basic earnings per share is flat at 600 pence despite the investment in connected TV services and one-off step up in Premier League costs. The Committee therefore awarded the CEO and CFO a maximum bonus at 200% and 150% of salary respectively. Notwithstanding the outstanding performance of both Executive Directors, the Committee made modest base salary increases of 2.5% to the CEO and 2.96% to the CFO which recognises their contribution without compromising the philosophy of retaining a relatively low level of fixed pay versus our comparator group.

The ratio of fixed pay to variable pay is 12% 88% for the CEO and 13% 87% for the CFO compared to the average of 23% 77% for our comparator group.

The continued support of our shareholders is vital. In response to feedback we have received over the last 12 months and in the context of the new reporting regulations, we have made a number of changes to our remuneration policy. These changes seek to further protect and align shareholder interests and are set out in our remuneration policy on pages 60 to 66 and include:

- The introduction of a cap on annual awards under the Long Term Incentive Plan
- A minimum shareholding requirement for the Executive Directors
- A formal policy on malus
- More explanation and disclosure on performance outcomes
- More information on our recruitment policy

We will continue to refine and develop the structure of our report to provide clarity on our remuneration approach and welcome further feedback from our shareholders on its content.

Tracy Clarke  
Remuneration Committee Chair

For further information on remuneration go to

Our Remuneration Policy  
Annual Remuneration Implementation Report

Page 60  
Page 67

# Directors' remuneration report

## Our Remuneration Policy

This section describes the Directors' Remuneration Policy which shareholders will be asked to approve at the 2014 AGM. The Committee intends that this policy will take effect from that date and will be effective until the 2017 AGM.

### Remuneration Principles

There are five key principles which 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. Any contractual commitments entered into or awards made before the policy comes into effect or a person became a director will be honoured.

	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	<p>Reviewed annually typically with effect from 1 July</p> <p>Salary is set relatively low versus the peer group of companies of similar market capitalisation to the Company</p> <p>The Committee looks at pay practices in selected international media companies</p> <p>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</p>	<p>Any increase will be in line with those provided to employees within the Company</p> <p>Higher increases may be made as a result of a change in role or responsibility or other performance-based circumstance</p> <p>This is in line with our policy for all employees</p>	Individual and business performance is taken into account when reviewing salaries
Pension	Provides opportunity for longer-term saving and/or retirement provision	<p>Executive Directors may receive employer contributions into the BSkyB Pension Scheme, a cash supplement in lieu of pension or a combination thereof</p> <p>All payments are made as a percentage of base salary</p>	Employer contributions to the pension scheme or an equivalent cash supplement are around 16% of base salary	N/A

	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>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 but 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 68.</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>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 pages 68 to 70.</p>

# Directors' remuneration report

## Our Remuneration Policy

(continued)

	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 in 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>This year the Company has introduced a policy on malus. 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 CEO is 600 000 shares in any 12-month period.</p> <p>This year the Company has introduced a maximum award level of 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>

Around 650 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.



### Shareholder alignment

The Committee considers shareholders' views as they are received during the year at the AGM through shareholder meetings and through correspondence. This year we wrote to our major shareholders outlining our approach to executive remuneration and the changes we propose to make.

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

### The context for setting executive remuneration policy

The principles underlying our 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 a measure of product 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 page 68.

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.

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

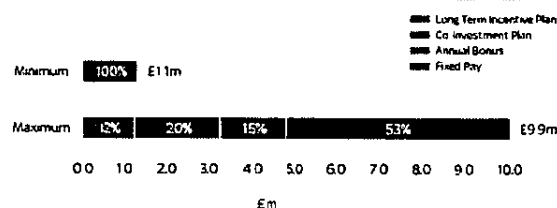
The charts below provide an estimate of the awards that could be received by our Executive Directors under the remuneration policy for 2014 showing:

- Minimum: base salary as at 1 July 2014 plus pension and benefits as per the table on page 71 (fixed pay)
- Maximum: fixed pay plus maximum awards for annual bonus (200% of base salary for the CEO and 150% for the 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 CEO and 350,000 shares for the CFO).

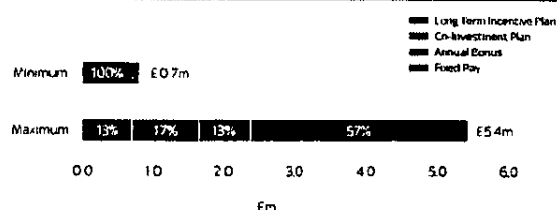
The Committee sets one clear and ambitious stretch target for each performance measure. If stretch targets are met then 100% of maximum for the bonus is paid and the shares awarded under the LTIP and CIP will vest in full. There is no additional payment for achievement over the stretch goals.

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 five year single figure remuneration table for the CEO on page 72.

### Jeremy Darroch, CEO



### Andrew Griffith, CFO



Scenarios are modelled assuming a share price of £8.818 which is the average share price over the period 1 April to 30 June 2014 with no allowance for share price appreciation.

# Directors' remuneration report

## Our Remuneration Policy

(continued)

### 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 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.

#### Executive Share Option Schemes (Executive Schemes)

The Company has in place Approved and Unapproved Executive Share Option Schemes. No options have been granted since 2004 and we do not envisage making any future awards as part of these schemes.

#### Sharesave Scheme

The Sharesave Scheme is open to UK and Irish employees and encourages them to make a long-term investment in the Company's shares in a tax efficient way. The current legislation provides for employees to save up to £500 per month. Currently the limit for Sky employees 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 9,000 employees participate in these schemes.

### 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. This year, new shareholding requirements have been introduced at 3x base salary for the CEO and 2x base salary for the CFO. Executive Directors are required to build up their shareholding to the required levels within five years. There are no shareholding guidelines for Independent Non-Executive Directors but they are able to participate in a monthly share purchase plan. See page 73 for further details on Directors' interests.

### How the Remuneration Committee exercises discretion

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

These include but are not limited to:

- Timing of a grant of an award/payment
- Size of an award/bonus payment up to the maximums indicated in the policy table
- Determination of vesting and the application of malus for the LTIP
- 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.

Non-Executive Directors have letters of appointment in place for initial terms of three years, 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:

	<b>Date of Letter of Appointment</b>
Nick Ferguson	15 June 2004
Chase Carey	30 January 2013
Tracy Clarke	11 June 2012
David DeVoe	15 December 2004
Martin Gilbert	29 November 2011
Adine Grate	17 July 2013
Andy Higginson	1 September 2004
Dave Lewis	16 November 2012
James Murdoch	7 December 2007
Matthieu Pigasse	29 November 2011
Danny Rimer	7 April 2008
Arthur Siskind	19 November 1991
Andy Sukawaty	1 June 2013

**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.

# Directors' remuneration report

## Our Remuneration Policy

(continued)

### 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 prorated 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 a member of their audit, remuneration and nominations committees. As at 30 June 2014, Jeremy had earned £32,666.

Andrew Griffith became a Non-Executive Director of Just Eat plc in March 2014 and serves as senior independent director, chairman of the audit committee and as a member of the remuneration and nominations committees. As at 30 June 2014, Andrew had earned £19,167.

# Directors' remuneration report

## Annual Remuneration Implementation Report

### 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 2014 are disclosed in the table on page 75</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 73</p>
Benefits		<p>Additional benefits may be provided for business purposes e.g. 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

(continued)

This section sets out how our remuneration policy was implemented during the year ended 30 June 2014 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.

### Variable pay outcomes for the year ended 30 June 2014

As shown on pages 36 to 38, the business has delivered another year of strong growth. As well as delivering a strong financial performance, the core businesses are growing well and new areas of business are accelerating. Against this background, we set out below payments made for the annual bonus, CIP and LTIP for the performance year ended 30 June 2014.

#### Annual bonus for 2014 performance

The annual bonus drives the achievement of annual financial and operational business goals. The plan for 2014 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:

- Net Product Growth
- Adjusted Operating Profit
- Adjusted Operating Cash Flow

We believe the concept of threshold, target and maximum would compromise the drive for growth so one clear stretch target is set for each performance measure each year.

This year we have provided more explanation on performance outcomes. The table in the next column sets out the Committee's assessment of performance versus the three measures for the last performance period. The Committee sets stretching targets which must be delivered to achieve the business plan and for the Executive Directors to receive the maximum bonus. There are no payments above maximum for performance above these stretch targets. The Committee will use its judgement to assess the level of bonus if a stretch target is not met, taking into account personal performance, the performance of the other measures, the underlying performance of the business and other factors which the Committee considers to be material to the results achieved.

Operational performance has been strong, with outperformance against each of our targets. Despite difficult economic market conditions, paid-for product growth has increased by 23% excluding the acquired O2 consumer and product base. Operating profit is also ahead of target at £1,260 million during a year of investment. Operating cash flow has seen another strong performance at £1,284 million.

Based on the excellent absolute and relative performance against the key bonus measures and the strong personal performance of both Executive Directors, the Committee has decided to award bonus payouts of 200% of base salary for the CEO and 150% for the CFO respectively.

### Remuneration Committee's assessment of performance outcomes versus targets set

Performance Measure	Weighting	Performance	Level of achievement
Paid-For Products Growth	33%	+3.1m	✓✓✓
Operating Profit	33%	£1,260m	✓✓✓
Operating Cash Flow	33%	£1,284m	✓✓✓
Overall Performance			✓✓✓

#### Performance Key

Achievement against stretch goals	(up to)	✓✓✓
Below stretch goals		X

The Committee judges that disclosure of specific targets is commercially sensitive because we operate in a highly competitive market both in acquiring customers and bidding for key rights with a very small number of players. We therefore believe that early disclosure of our targets would offer an unfair competitive advantage and would be to the detriment of our shareholders.

We will make retrospective disclosure when the targets are deemed to be 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 2011-2014

Under the terms of the CIP offered on 30 August 2011 for the performance period 1 July 2011 to 30 June 2014, Executive Directors voluntarily deferred 50% of their earned 2011 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%	1.17
RPI +5%	1.33
RPI +6%	1.5
More than RPI +6%	1.5
Straight line interpolation between points	

\* i.e. on equivalent gross basis

The average adjusted basic EPS growth rate of 13% per year over the three-year period exceeds the threshold for maximum vesting. The Committee has agreed that the matching shares under the 2011 CIP will vest in full on 30 August 2014.

#### Executive Long Term Incentive Plan 2012-2015

The next vesting of awards made under the terms of the LTIP will occur on 26 July 2015 for the three-year performance period 1 July 2012 to 30 June 2015. This will include vesting of awards made in 2012 and 2013. Awards made in 2010 and 2011 vested in July 2013.

## Long Term Incentive Plan and Co-Investment Plan Awards made in the Year (audited)

The table below sets out the LTIP and CIP awards made to Executive Directors during the year ended 30 June 2014

	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	26 0713	£4 932,000 <sup>1</sup>	01 0712 – 30 0615	26 0715	0%	100%
Andrew Griffith	320 000	26 0713	£2 630 400 <sup>1</sup>	01 0712 – 30 0615	26 0715	0%	100%
<b>Co-Investment Plan</b>							
Jeremy Darroch	162,794	28 08 13	£1 369,098 <sup>2</sup>	01 0713 – 30 0616	28 08 16	0%	100%
Andrew Griffith	74,249	28 08 13	£624 434 <sup>2</sup>	01 0713 – 30 0616	28 08 16	0%	100%

1 Market price at date of LTIP award was £8 220 on 26 July 2013

2 Market price at date of CIP matching award was £8 410 on 28 August 2013

### Performance conditions for the Long Term Incentive Plan

Awards made in July 2013 were "Year 2" nil-cost option awards. That is, they refer back to the three year performance period beginning on 1 July 2012 and ending on 30 June 2015 and are subject to the following performance conditions

#### 1 Operational targets – 70% of the award

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

- EPS growth – a key measure of shareholder returns
- Operating cash flow – measures our ability to generate and manage cash
- Revenue growth – core to our growth strategy

The Committee believes that early disclosure of our targets would give an advantage to our competitors and would be to the detriment of our shareholders. We will make retrospective disclosure when the targets are deemed to be no longer commercially sensitive. We anticipate this to be two years after the end of the performance period

Points are awarded for performance on the three operational measures as follows

- 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

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 2012 and 2013 at RPI +5% p a. This is equivalent to 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.

# Directors' remuneration report

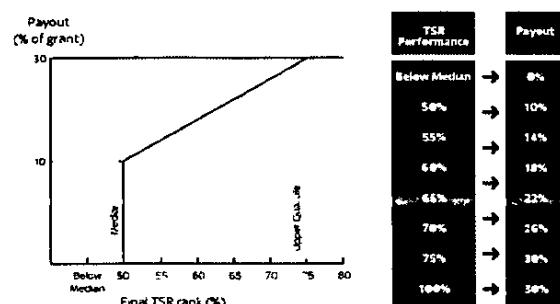
## Annual Remuneration Implementation Report

(continued)

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

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

#### TSR Vesting Schedule



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

### Performance conditions for the Co-Investment Plan

CIP awards made in 2013 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	

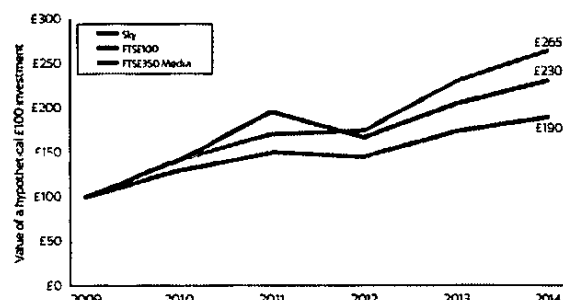
\* on equivalent gross basis

### Review of past performance

#### TSR performance

The graph below shows the Company's TSR for the five years to 30 June 2014, 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 and FTSE Media 350 indices, which represent the broad market indices within 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.





## Payments made to Executive Directors

The table sets out total remuneration received by the Executive Directors for the financial year ended 30 June 2014 and the prior year ended 30 June 2013

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.

The 2013 single figure for total remuneration includes vesting of a one-off additional LTIP award made in 2011 at the time of the News Corporation bid as disclosed in the 2011 Report on Directors' Remuneration. 2013 was also a vesting year for our LTIP.

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

£	Salary <sup>1</sup>		Taxable Benefits <sup>2</sup>		Pension <sup>3</sup>		Bonus <sup>4</sup>		Long Term Incentive Plan <sup>5</sup>		Co-Investment Plan <sup>6</sup>		Total	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Jeremy Darroch	935 000	960 700	17 122	17 907	158 564	149 491	1 823 250	1 921 400	12 525 000	n/a	1 568 046	1 831 754	17 026 982	4 881 252
Andrew Griffith	573 500	602 175	16 104	16 115	70 319	83 481	831 575	903 263	6 471 250	n/a	593 954	844 703	8 556 702	2 449 736

- Executive Directors' salaries were increased on 1 July 2013 by 2.75% for the CEO and 5.0% for the CFO reflecting their excellent performance. The increase for employees who were similarly categorised as outstanding performers ranged up to 10%. The average increase for employees at that time was 2.5% rising to 3.5% for those earning less than £50 000 per year with a range of 0% to 10% for performance, promotions and market adjustments.
- Taxable benefits include company car or car allowance and healthcare.
- Pension comprises a cash allowance in lieu of company contributions for Jeremy Darroch. Andrew Griffith became a deferred member of the pension scheme on 1 December 2013 and received £16 667 in company contributions and £66 814 as a cash allowance.
- Bonus shows the full amount earned shortly after year end in which the performance measures applied, including amounts deferred through the CIP. The payout for the 2013 bonus was 195% of base salary for the CEO and 145% for the CFO. The figures for 2014 are 200% for the CEO and 150% for the CFO. The Executive Directors deferred 50% of their bonus into shares through the CIP in 2013 and it is anticipated they will do so for 2014.
- Long Term Incentive Plan shows the market value of the awards vested immediately following the end of the relevant performance period. The figure for 2013 is for LTIP shares vested on 29 July 2013 with a share price of £8.35 and includes the vesting of the one-off additional award of 300 000 shares for the CEO and 135 000 for the CFO made in 2011 at the time of the News Corporation bid. No LTIP shares vested for the performance period ended 30 June 2014.
- Co-Investment Plan shows the market value of the matching shares that vested on 31 August 2013 with a share price of £8.525 and the estimated value of matching shares that are due to vest on 30 August 2014 using the average share price over the period 1 April to 30 June 2014 of £8.818.

# Directors' remuneration report

## Annual Remuneration Implementation Report

(continued)

### CEO's remuneration

The table below provides a summary of the total remuneration for the CEO over the past five 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 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 News Corporation bid. The average annual total remuneration paid to the CEO over this five year period, excluding this one-off award is £7,553,114.

Year	Single figure of total remuneration	Annual Bonus payout against maximum opportunity %	LTIP vesting rates against maximum opportunity %	CIP vesting rates against maximum opportunity %
2014	4,881,252 <sup>1</sup>	100	n/a	100
2013	17,026,982 <sup>2</sup>	97.5	100	100
2012	4,550,037 <sup>3</sup>	100	n/a	100
2011	11,133,554	100	83	n/a
2010	2,678,744	100	n/a	n/a

- 1 Includes valuation of CIP matching shares due to vest on 30 August 2014 using the average share price over the period 1 April to 30 June 2014 of £8.818
- 2 Includes vesting of the one-off additional LTIP award of 300,000 shares made in 2011 at the time of the News Corporation bid
- 3 Includes first year of vesting of CIP introduced in 2010

### Percentage change in CEO's remuneration

The table below shows the percentage change in CEO remuneration from 1 July 2013 to 30 June 2014 compared to the average change for all employees.

	CEO % change	All employees % change
Base Salary	2.75%	3.75% employees earning less than £50,000, 2.5% above £50,000
Taxable Benefits	5.8%	0%
Annual Bonus	-5.3%	13.0%

### Relative importance of pay spend

The table below shows total employee costs and dividend payments to shareholders for 2013 and 2014.

	2013 (£m)	2014 (£m)
Total employee costs	989	1,044
Dividend payments	441	485

### Implementation of Remuneration Policy for the coming year to 30 June 2015

The Committee has determined that the remuneration policy will be implemented as set out below for the year ending 30 June 2015.

#### Base salary

The average salary increase for our employees effective 1 July 2014 was 3.5% for those earning less than £30,000 and 2.5% for all other employees, with increases up to 10% for outstanding performance, promotions and market adjustments. Notwithstanding the outstanding performance of the CEO and CFO, the Committee has decided to make modest base salary adjustments of 2.5% for the CEO and the 2.96% for the CFO effective 1 July 2014, to recognise their contribution without compromising the long held intent to maintain a well-leveraged package with a relatively low level of fixed pay versus our pay comparator group.

#### Taxable benefits and pension

No changes.

#### Annual Bonus and Co-Investment Plan

No changes. 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 70.

#### Long Term Incentive Plan award

The normal annual awards for the Executive Directors have remained unchanged for some years at 600,000 for the CEO and 320,000 for the CFO. 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 25 July 2014. The adjustment for Andrew Griffith reflects the consolidation of his broader role and his increasing contribution to the business. This is the Year 1 award of the 2014-2017 Plan. These awards will normally vest on 25 July 2017 subject to the performance measures being achieved.

The performance conditions for this award remain the same as for those made in 2012 and 2013 and operate using the same methodology as set out on pages 69 and 70.

EPS growth target is as per page 69 and the TSR vesting schedule is as per page 70.

## Directors' Share Interests

As at the end of the financial year the CEO had beneficial ownership of 411 695 shares equivalent to 3.82 x base salary and the CFO had beneficial ownership of 117 903 shares equivalent to 1.75 x base salary, using the year end closing share price of £8.93. The CEO currently exceeds the new shareholding guidelines. It is expected that the CFO will meet the new guidelines during the next financial year.

### Interests in British Sky Broadcasting Group plc shares (audited)

	Notes	As at 30 June 2013	Shares acquired during the year	As at 30 June 2014
<b>Executive Directors</b>				
Jeremy Darroch	1	354 575	57 120	411 695
Andrew Griffith	1, 2	114 452	26 052	117 903
<b>Non-Executive Directors</b>				
Nick Ferguson		22 128	7 911	30 039
Chase Carey	3	-	-	-
Tracy Clarke		895	842	1 737
David DeVoe	3	-	-	-
Dave Lewis		705	2 049	2 754
Martin Gilbert		2 281	1 392	3 673
Adine Grate	4	-	9 194	9 194
Andy Higginson	5	6 571	949	7 520
James Murdoch	3	-	-	-
Matthieu Pigasse		2 477	1 287	3 764
Danny Rimer		21 122	4 580	25 702
Arthur Siskind	3	-	-	-
Andy Sukawaty		95	1 069	1 164

1. Interests in shares include shares purchased under the Co-Investment Plan on 28 August 2013 at a price of £8.3998.

2. Andrew Griffith disposed of 22 601 ordinary shares at a price of £8.495 on 2 September 2013. These were acquired in 2010 as investment shares under the CIP and were released on 31 August 2013 when the matching award vested.

3. The Directors associated with 21st Century Fox are not permitted to participate in the monthly share purchase plan.

4. Adine Grate purchased 9 194 shares at £8.615 on 18 September 2013.

5. Andy Higginson participates in the Dividend Reinvestment Plan.

All interests at the date shown are beneficial and there have been no changes between 1 July and 25 July 2014.

# Directors' remuneration report

## Annual Remuneration Implementation Report

(continued)

### Outstanding share awards Jeremy Darroch (audited)

Date of award	Notes	At 30 June 2013	Vested during year	Exercised during year	Lapsed during year	At 30 June 2014	Share price at date of award	Market price on exercise	Date from which exercisable	Expiry date
<b>LTIP</b>										
29 07 10	12	600 000	600 000	600 000	-	-	£7110	£8 35	29 07 13	29 07 18
29 07 11	12	900 000	900 000	900 000	-	-	£7120	£8 35	29 07 13	29 07 18
26 07 12		600 000	-	-	-	600 000	£7065	n/a	26 07 15	26 07 20
<b>CIP Matching</b>	3									
27 08 09		204 425	-	-	-	204 425	£5 405	n/a	27 08 12	27 08 17
31 08 10		183 935	183 935	-	-	183 935	£7075	n/a	31 08 13	31 08 18
30 08 11		207 729	-	-	-	207 729	£6 460	n/a	30 08 14	30 08 19
28 08 12		184 149	-	-	-	184 149	£7640	n/a	28 08 15	28 08 20
<b>Sharesave</b>										
25 09 09		3 591	-	-	-	3 591	£4 33	n/a	01 02 15	01 08 15

### Outstanding share awards Andrew Griffith (audited)

Date of award	Notes	At 30 June 2013	Vested during year	Exercised during year	Lapsed during year	At 30 June 2014	Share price at date of award	Market price on exercise	Date from which exercisable	Expiry date
<b>LTIP</b>										
29 07 10	12 3	320 000	320 000	320 000	-	-	£7110	£8 35	29 07 13	29 07 18
29 07 11	12 3	455 000	455 000	455 000	-	-	£7120	£8 35	29 07 13	29 07 18
26 07 12		320 000	-	-	-	320 000	£7065	n/a	26 07 15	26 07 20
<b>CIP Matching</b>	4 5									
31 08 10		69 672	69 672	69 672	-	-	£7075	£8 49	31 08 13	31 08 18
30 08 11		95 793	-	-	-	95 793	£6 460	n/a	30 08 14	30 08 19
28 08 12		84 713	-	-	-	84 713	£7640	n/a	28 08 15	28 08 20
<b>Executive Options</b>										
01 09 03	6	44 184	-	44 184	-	-	£6 62	£8 35	01 09 07	01 09 13
06 08 04	6	19 819	-	19 819	-	-	£5 03	£8 35	06 08 08	06 08 14
<b>Sharesave</b>										
16 09 11		1 771	-	-	-	1 771	£5 08	n/a	01 02 15	01 08 15

1 The shares were exercised and subsequently sold on 29 July 2013 the aggregate value received by the Executive Directors on exercise of their 2010 and 2011 LTIP awards before tax was £18 996 250 (2013 £4 095 588)

2 Following the vesting of awards participants continuing to be employed by the Company have five years to exercise their award

3 Performance conditions relating to LTIP awards made in 2010 and 2011 were disclosed in the 2013 Annual Report

4 Dividends are payable on shares purchased through the CIP During the year the Executive Directors received £134 560 (2013 £101 590)

5 Performance conditions relating to CIP matching awards can be found on page 68

6 The Company has not made any Executive Share Option awards since 2004

## Single Figure for the Chairman and the Non-Executive Directors

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 2014 and the prior year ended 30 June 2013

	2014 Total Fees <sup>1</sup>	2013 Total Fees
Nick Ferguson	462,375	450,000
Chase Carey	60,000	24,162
Tracy Clarke <sup>2</sup>	95,160	78,000
David DeVoe	60,000	58,000
Dave Lewis	90,000	45,312
Martin Gilbert	105,000	94,666
Adine Grate <sup>3</sup>	66,987	n/a
Andy Higginson	145,000	151,333
James Murdoch	95,000	93,000
Matthieu Pigasse	70,000	68,000
Danny Rimer <sup>2</sup>	77,769	103,833
Arthur Siskind	70,000	68,000
Andy Sukawaty	70,000	5,666

1 Basic fees were increased by 2.75% with effect from 1 July 2013

2 Tracy Clarke replaced Danny Rimer as Chairman of the Remuneration Committee on 21 November 2013. Danny Rimer stepped down as Chairman and member of the Remuneration Committee and as a member of the Corporate Governance & Nominations Committee on 22 November 2013

3 Adine Grate was appointed Non-Executive Director on 17 July 2013 and joined the Audit Committee on 26 July 2013

Fees for the Chairman and base Non-Executive Director fees were increased by 2.5% effective 1 July 2014, as detailed in the table below

	1 July 2014 £	1 July 2013 £
Chairman (all inclusive fee)	473,934	462,375
Deputy Chairman <sup>1</sup>	30,000	30,000
Board member	61,500	60,000
<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 The role of Deputy Chairman is not required to be filled at this present time

## 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 holds a meeting to talk about remuneration with major shareholders and institutional investor groups. This enables the Company to take shareholders' views fully into account when making decisions about remuneration. At the AGM held on 22 November 2013, 77.4% of shareholders voted in favour of the Directors' report on remuneration.

Resolution	Votes For	% For	Votes Against	% Against	Total Votes Cast	Votes Withheld
Approval of the remuneration report	1020 278 744	77.4%	297 928 375	22.6%	1 318 207 119	749 514 8

The Committee has sought the views of major shareholders since then and has made a number of important changes to the Company's policy in response to this as set out in the Chairman's statement on page 59.

## Membership of the Committee

During the year ended 30 June 2014, the Committee chaired by Tracy Clarke met five times. Nick Ferguson, Martin Gilbert, and Andy Sukawaty are members of the Committee. Danny Rimer stepped down as Chairman and member of the Committee on 22 November 2013. Martin Gilbert stepped down as a member of the Committee on 24 July 2014 and Adine Grate was appointed in his place with effect from 25 July 2014. Attendance during the year is shown on page 50.

# Directors' remuneration report

## Annual Remuneration Implementation Report

(continued)

### 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 CEO. The full terms of reference for the Committee are available on the Company's corporate website.

### Committee activities during the year

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

July 2013	November 2013	February 2014	April 2014	June 2014
Performance outcomes for bonus, LTIP and CIP	Performance update – bonus, LTIP and CIP	Performance update – bonus, LTIP and CIP	Performance update – bonus, LTIP and CIP	Policy review on 2014 Directors' Remuneration Report
Target setting for 2013/14	Update on 2013 reporting season	2014 Directors' Remuneration Report requirements	New reporting and implications for Sky	Approach to Shareholder engagement
Review draft Directors' Remuneration Report	Shareholder feedback and proxy voting guidance			Benchmarking for Executive Directors
	2014 Directors' Remuneration Report requirements			

### Advisors to the Committee

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. Terms of reference are monitored throughout the appointment. 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 Towers Watson for their services in relation to directors' pay totalled £193,612.

The 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 25 July 2014 and signed on its behalf by:

Tracy Clarke  
Chairman of Remuneration Committee

# Directors' report and statutory disclosures

In accordance with the Companies Act 2006 the Corporate governance report on pages 48 to 58 and information contained in the Strategic report 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 2014

## Dividends

The Directors recommend a final dividend for the year ended 30 June 2014 of 20.0 pence per ordinary share which, together with the interim dividend of 12.0 pence paid to shareholders on 22 April 2014 will make a total dividend for the year of 32.0 pence (2013 30.0 pence) Subject to approval at the 2014 AGM the final dividend will be paid on 5 December 2014 to shareholders appearing on the register at the close of business on 14 November 2014

## Share capital

The Company's issued ordinary share capital at 30 June 2014 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 is disclosed in note 23 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 2014 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	Percent of class
21st Century Fox UK Nominees Limited <sup>1</sup>	611 676 643	39.14
BlackRock Inc. <sup>2</sup>	88 682 765	5.06

<sup>1</sup> Direct holding which is subject to restrictions on its voting rights (please see "Voting rights" below)

<sup>2</sup> Indirect holding

There have been no changes to the above significant holdings between 1 July and 25 July 2014

At 25 July 2014 39.14% of the Company's shares are held by 21st Century Fox UK Nominees Limited a company incorporated under the laws of England and Wales which is an indirect wholly-owned subsidiary of 21st Century Fox The Murdoch Family Trust beneficially owns less than 1% of 21st Century Fox Class A Common Stock and 38.4% of its Class B Common Stock As a result of Rupert Murdoch's ability to appoint certain members of the Board of Directors of the corporate trustee of the Murdoch Family Trust Rupert Murdoch may be deemed to be a beneficial owner of the shares beneficially owned by the Murdoch Family Trust Rupert Murdoch however, disclaims any beneficial ownership of those shares Also Rupert Murdoch reports beneficial ownership of an additional 1% of 21st Century Fox Class B Common Stock Rupert Murdoch's reported beneficial ownership of 21st Century Fox also includes 8,729,432 shares of Class A Common Stock held by the GCM Trust that is administered by independent trustees for the benefit of Rupert Murdoch's minor children however, Rupert Murdoch disclaims beneficial ownership of such shares Thus Rupert Murdoch may be deemed to beneficially own in the aggregate less than 1% of 21st Century Fox Class A Common Stock and 39.74%

of its Class B Common Stock, although, as stated above Rupert Murdoch disclaims beneficial ownership of the shares of 21st Century Fox beneficially owned by the Murdoch Family Trust and the GCM Trust

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 2014 the ESOP had an interest in 17,308,999 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 he is 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 him If a member appoints more than one proxy he 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 and 21st Century Fox UK Nominees Limited which became unconditional on 4 November 2005 and caps 21st Century Fox UK Nominees Limited's voting rights at any general meeting at 37.19% The provisions of the voting agreement cease to apply on the first to occur of a number of circumstances which include the date on which a general offer is made by an independent person (as defined in the voting agreement) for the ordinary share capital of the Company

## Restrictions on transfer of securities

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

## Variation of rights

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

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

At the Company's AGM on 22 November 2013 the Company was granted the authority to return £500 million of capital to shareholders via a share buy-back programme This authority will apply until the conclusion of this year's AGM and is subject to an agreement between the Company and 21st Century Fox (and others) dated 25 July 2013 whereby following any market purchases of shares by the Company 21st Century Fox would sell to the Company sufficient shares to maintain its percentage shareholding at the same level prior to those market purchases

# Directors' report and statutory disclosures

## (continued)

At the Company's AGM on 1 November 2012, the Company was granted the authority to return £500 million of capital to shareholders via a share buy-back programme. This authority was subject to an agreement between the Company and 21st Century Fox (and others) dated 28 July 2012 on substantially the same terms as the 2011 Share Buy-Back Agreement.

At the Company's AGM on 22 November 2011, the Company was granted the authority to return £750 million of capital to shareholders via a share buy-back programme. This authority was subject to an agreement between the Company and 21st Century Fox (and others) dated 28 July 2011 whereby following any market purchases of shares by the Company, 21st Century Fox would sell to the Company sufficient shares to maintain its percentage shareholding at the same level as applied prior to those market purchases (the "2011 Share Buy-back Agreement"). The price payable to 21st Century Fox would be the price payable by the Company in respect of the relevant market purchases.

### Articles of association

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

### Board of Directors and their interests

The Directors who served during the year were: Nick Ferguson, Jeremy Darroch, Andrew Griffith, Chase Carey, Tracy Clarke, David DeVoe, Matthieu Pigasse, Martin Gilbert, Adine Grate, Andy Higginson, Dave Lewis, James Murdoch, Danny Rimer, Arthur Siskind and Andy Sukawaty. The biographical details of the Directors of the Company are given on pages 46 and 47.

The Directors' interests in the ordinary shares and options of the Company are disclosed within the Directors' remuneration report on pages 73 to 75.

### Appointment and retirement of Directors

The Directors may from time to time appoint one or more Directors. Any such Director shall hold office only until the next AGM and shall then be eligible for reappointment by the Company's shareholders. At the Company's 2014 AGM all current Executive and Non-Executive Directors will retire and offer themselves for reappointment in compliance with the Code, with the exception of Andy Higginson who will retire from the Board at the 2014 AGM.

### 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 his 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 his service as an Alternate Director.

Chase Carey, David DeVoe, Arthur Siskind and James Murdoch have appointed each of the others to act as their Alternate Director.

### Equal opportunities

The Company is an equal opportunities employer and believes that everyone should have full and fair consideration for all vacancies, promotions, training and development. Should an employee become disabled during their employment at Sky, where possible, the Company will actively retrain and adjust the environment to allow them to maximise the employee's potential. Over the course of the year, the Company has partnered with various not-for-profit organisations with the aim of providing more opportunities for people with disabilities. Further information can be found on page 35 and at [sky.com/workforsky](http://sky.com/workforsky).

### Diversity

The Company treats all people equally, fairly, with respect and without prejudice. Decisions about people's employment with the Company are based on ability, performance and qualifications. This principle also applies when the Company makes decisions about development, promotion, pay and benefits.

The Company delivers some of the most diverse content and services available to a wide range of consumers and it values the same diversity within the business and promotes a culture of opportunity for all, regardless of background. The Company does not tolerate unfair treatment or discrimination at work based on ethnicity, gender, age, religion, disability or sexual orientation.

As at 30 June 2014, the table below demonstrates diversity throughout the Group.

	Male		Female	
Board of Directors <sup>1</sup>	13	87%	2	13%
Senior managers <sup>1</sup>	105	74%	36	26%
Executive direct reports to the CEO <sup>1</sup>	7	70%	3	30%
All employees <sup>2</sup>	14,740	66%	7,508	34%

<sup>1</sup> As defined in the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

<sup>2</sup> Based on full-time equivalent employees from continuing operations and excluding people who work for our joint ventures.

2013/14 data is independently assured by Deloitte LLP and can be viewed online at [sky.com/biggerpicture](http://sky.com/biggerpicture).

### Employee involvement

Further detail on employee engagement together with the information on diversity and talent development can be found on pages 32 to 35.

### Greenhouse gas emissions

Disclosures concerning greenhouse gas emissions became mandatory under the Companies Act 2006 in the current financial year.

Since 2008/09 we've reduced our emissions relative to revenue (tCO<sub>2</sub>e/£m) by 40%. This means we are on track to meet our target of halving our emissions relative to revenue (t/£m) by 2020. Our absolute carbon emissions have decreased by over 10% since 2008/09 as a result of our continued long-term investments in improving the efficiency of our buildings, fleet and travel despite growing significantly as a business.

This year across all of the sites that we have a degree of influence over we have decreased our emissions for electricity and gas. For example across our Scottish sites the new Building Management System (BMS) commissioned in July 2013 has allowed for better control and monitoring and led to reduced gas and electrical usage. Overall electricity use in Scotland has decreased by almost a third. The two



biomass boilers installed this year have further decreased the gas usage at these sites by about 70%. Not just this but as the buildings are working more efficiently the need for the heat from the biomass has subsequently reduced.

We measure our CO<sub>2</sub>e emissions in line with the greenhouse gas protocol. Our total gross CO<sub>2</sub>e emissions includes all direct Greenhouse Gas emissions. Our net emissions take into account the renewable energy procured from a renewable energy tariff with Scottish and Southern Energy Group. Scottish and Southern retain on our behalf, the Levy Exemption Certificates and Renewable Energy Guarantee of Origin (REGOs). In addition we offset our total gross emissions through the purchase of Voluntary Carbon Standard offsets. Historical data is recalculated each year in line with the latest guidelines to Defra/DECC's Greenhouse Gas Conversion Factors for Company Reporting and restated accordingly. Our CO<sub>2</sub>e emissions data is independently assured by Deloitte LLP.

More information about our environmental targets and performance can be found at [sky.com/biggerpicture](http://sky.com/biggerpicture)

A table detailing the emissions during the year is below

#### Total CO<sub>2</sub>e emissions (tCO<sub>2</sub>e)<sup>1</sup>

	Baseline 2008/09	2012/13	2013/14
<b>Scope 1<sup>2</sup></b>	<b>20 274</b>	<b>20 860</b>	<b>20 808</b>
Fuel combustion (natural gas, diesel and vehicles)	18 453	20 580	20 350
Operation of facilities (refrigerants)	1 821	280	458
<b>Scope 2<sup>3</sup></b>	<b>85 250</b>	<b>72 029</b>	<b>74 140</b>
Purchased electricity net	15 347	4 191	960
Purchased electricity gross	85 250	72 008	74 138
Purchased steam	–	21	2
<b>Total (Scope 1 and 2) net CO<sub>2</sub>e emissions (tCO<sub>2</sub>e)</b>	<b>35 621</b>	<b>25 051</b>	<b>21 768</b>
<b>Total (Scope 1 and 2) gross CO<sub>2</sub>e emissions (tCO<sub>2</sub>e)</b>	<b>105,524</b>	<b>92,889</b>	<b>94 948</b>

#### Carbon intensity (tCO<sub>2</sub>e/£m revenue)<sup>3</sup>

	Baseline (2008/09)	2012/13	2013/14	Target
Carbon intensity (tCO <sub>2</sub> e)/£m	20.6	12.8	12.4	
Reduction in gross CO <sub>2</sub> e emissions relative to revenue (%)		-38	-40	-50

#### Notes:

- 2013/14 data is independently assured by Deloitte LLP and can be viewed online at [sky.com/biggerpicture](http://sky.com/biggerpicture)
- Direct greenhouse gas emissions
- Indirect Greenhouse Gas emissions from consumption of purchased electricity, heat or steam.

#### Significant agreements

The following significant agreements which were in force at 30 June 2014 take effect, alter or terminate on a change of control of the Company

##### Premier League

In 2012 British Sky Broadcasting Limited (a Group subsidiary) entered into an agreement (the "PL Licence") with The Football Association Premier League Limited (the "PL") pursuant to which the Group was awarded five of seven available packages of live audio-visual rights for Premier League football (the seven packages are together the "Live Packages") together consisting of 116 live matches per season. The PL will not award Live Packages containing in the aggregate more than 116 live matches per season to a single licensee (either on its own or as part of a consortium or through one or more of its related parties) (the "Single Buyer Rule"). Pursuant to the 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 38 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 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 Single Buyer Rule.

##### Revolving Credit Facility

The Group has a £743 million syndicated revolving credit facility ("RCF") with a maturity date of 31 October 2018. 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).

##### 21st Century Fox voting agreement

On 21 September 2005 the Company BSKy8 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.

##### EMTN bond issue

On 3 April 2007 the Group established a euro medium term note programme (the "EMTN 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 maximum potential issuance under the GMTN Programme is £2.5 billion. On 14 May 2007 under the EMTN Programme the Company issued Eurobonds consisting of £300 million guaranteed notes paying 6.000% interest and maturing on 14 May 2027 (the "Notes"). Pursuant to the final terms attaching to the Notes, the Company will be required to make an offer to redeem or purchase its Notes at its principal amount plus interest up to the date of redemption or repurchase if there is a change of control of the Company (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) where, 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) where 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.

# Directors' report and statutory disclosures

(continued)

February 2008, November 2008 and November 2012 bond issues. In February 2008, the Group entered into an indenture in respect of US\$750 million 6.100% senior unsecured notes due 2018. In November 2008, the Group entered into an indenture in respect of US\$600 million 9.500% senior unsecured notes due 2018. In November 2012, the Group updated the November 2008 indenture in respect of a further issuance of US\$800 million 3.125% senior unsecured notes due November 2022. Pursuant to the final terms attaching to the securities, 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 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 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.

## UK broadcasting licences

The Group is party to a number of Ofcom broadcasting licences for the broadcast of the Sky 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 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.

## Financial instruments

Details of the Group's use of financial instruments, together with information on our financial risk management objectives and policies and our exposure to financial risks can be found in note 22 to the consolidated financial statements.

## Political contributions

Political contributions of the Group in the UK during 2014 amounted to nil (2013: nil).

## Branches

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

## 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 45. The financial position of the Group, its cash flows and liquidity position are described in the financial review on pages 36 to 38. In addition, notes 20 to 22 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 on pages 123 to 124, 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.

## 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.

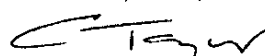
## Annual General Meeting

The venue and timing of the Company's 2014 AGM is detailed in the notice convening the AGM which will be available for download from the Company's corporate website at [sky.com/corporate](http://sky.com/corporate).

By order of the Board

Chris Taylor  
Company Secretary

25 July 2014



# 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

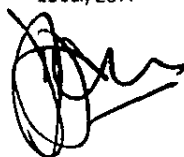
The Directors confirm that to the best of their knowledge

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

By order of the Board

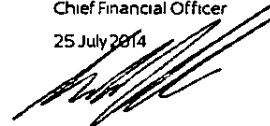
Jeremy Darroch  
Chief Executive Officer

25 July 2014



Andrew Griffith  
Chief Financial Officer

25 July 2014



# Independent Auditor's report

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

### Opinion on the financial statements of British Sky Broadcasting Group plc

In our opinion the consolidated and Parent Company financial statements of British Sky Broadcasting Group plc

- give a true and fair view of the state of the Group's and Parent Company's affairs as at 30 June 2014 and of their profit for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation as regards the consolidated financial statements

The consolidated financial statements comprise the consolidated and company income statements, the consolidated and company statements of comprehensive income, the consolidated and company balance sheets, the consolidated and company cash flow statements, the consolidated and company statements of changes in equity and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

### Our assessment of risks significant to our audit

There has been no significant change in the Group's operations nor in our assessment of materiality, therefore the assessed risks of material misstatement described below, which are those that had the greatest effect on the audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team, are the same risks as in the prior year.

Risk	How the scope of our audit responded to the risk
<b>Revenue recognition</b> The allocation of retail subscription revenue to each element of a bundled transaction requires judgement, as described in the Group's critical accounting policies and the use of judgement on page 95. The risk is that inappropriate allocations could lead to non-compliance with accounting standards and inappropriate acceleration or deferral of revenue principally for new customers.	We evaluated management's revenue recognition policy and assessment in respect of accounting for bundled transactions against relevant accounting standards and guidance, and tested the implementation of the policy. Our procedures included understanding and testing the operating effectiveness of controls in respect of the Group's billing, viewing and customer relationship management systems and the reconciliation processes between these systems and with the general ledger accounting system. We also performed substantive analytical procedures over retail subscription revenue streams.

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

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

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

### Going Concern

As required by the Listing Rules, we have reviewed the Directors' statement on page 80 that the Group is a going concern. We confirm that:

- we have not identified material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern, and
- we have concluded the Directors' use of the going concern basis of accounting in the preparation of the financial statements to be appropriate.

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.

Risk	How the scope of our audit responded to the risk
<p><b>General entertainment programming</b></p> <p>Determining the timing and amount of the recognition of general entertainment programming expense requires judgement as set out in the Group's critical accounting policies and the use of judgement on page 96</p> <p>The risk identified is that the policy selected and applied by management to expense general entertainment programming does not recognise the cost of inventory in line with the expected value from each broadcast</p>	<p>We examined the amortisation method for general entertainment programming inventory taking into account the differing genres of programmes, viewing profiles and industry benchmarks</p> <p>Our procedures included</p> <ul style="list-style-type: none"> <li>• Benchmarking management's policy against industry practice</li> <li>• Testing the design and implementation of controls over the addition and amortisation of general entertainment programming</li> <li>• Comparing amortisation profiles against viewing trends from independent source data</li> <li>• Performing sensitivity analyses to understand the impact of selecting alternative amortisation profiles</li> <li>• Considering the impact of entertainment programming on brand value, customer acquisition and churn, and</li> <li>• Evaluating the results of our analysis on both a programme genre and channel basis</li> </ul>

#### Capital expenditure

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 well as the selection of appropriate useful economic lives, as set out in the Group's critical accounting policies and the use of judgement on page 95. In addition, determining whether there is any indication of impairment of the carrying value of assets also requires judgement.

As capital expenditure represents a material cost for the group, there is a risk that expenditure on intangible and tangible non-current assets is inappropriately capitalised against relevant accounting guidance and that assets are not recoverable at their carrying value.

We tested operating effectiveness of controls in respect of the capitalisation of assets and examined carrying values for impairment.

We tested all material and a sample of other capital expenditure projects and examined management's assessment as to whether the project spend met the recognition criteria set forth in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. Our procedures included understanding the business case for each project, challenging any core assumptions or estimates, verifying capital project authorisation, tracing project costs to third-party evidence and assessing the useful economic life attributed to the asset.

In addition, we considered whether any indicators of impairment were present by understanding the business rationale for each project and performing independent reviews for indicators of impairment, as well as testing management's controls to identify impairment of assets.

We reported to the Audit Committee that our audit work on these risks was concluded satisfactorily and their own consideration of these risks is set out on page 54.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, within the context of our assessment of materiality as described below, and not to express an opinion on individual audit risks, individual items or disclosures in the financial statements. Our opinion on the financial statements is not modified with respect to any of the key risks described above, and we do not express an opinion on these individual matters.

# Independent Auditor's report

## (continued)

### Our assessment of materiality

We define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person relying on the financial statements, would be changed or influenced. We use materiality in both planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £50 million (2013 £50 million) which is approximately 4% (2013 4%) of adjusted pre-tax profit, 5% (2013 5%) of equity and 5% (2013 4%) of statutory profit before taxation.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2.5 million (2013 £2.5 million), as well as differences below that threshold that in our view warranted reporting on qualitative grounds. We also report to the Audit Committee any significant disclosure matters that we identify when assessing the overall presentation of the financial statements. We confirmed to the Audit Committee that we had no significant disclosure matters to report.

### An overview of the scope of our audit

Our audit scope focused on the Group's UK and Ireland operations which were subject to a full scope audit for the year ended 30 June 2014. Our audit scope encompasses all principal business units of the Group and substantially all of the Group's assets, revenue and operating profit. All audit work was performed by the group audit team.

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

#### In our opinion

- 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 part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

#### Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

#### Directors' remuneration

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

#### Corporate Governance Statement

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

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

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

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

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

**Respective responsibilities of Directors and Auditor****Responsibility of Directors for the financial statements**

As explained more fully in the Statement of Directors' responsibilities set out on page 81 the Directors are responsible for the adequacy of the accounting records, the preparation of the financial statements from those records and for being satisfied that the financial statements give a true and fair view.

**Auditor's responsibility**

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We confirm that, in our professional judgement, we are independent within the meaning of those standards and our objectivity is not compromised. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

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

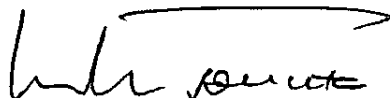
**Scope of the audit of the financial statements**

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

**William Touche**

(Senior Statutory Auditor) for and on behalf of  
Deloitte LLP Chartered Accountants and Statutory Auditor  
London  
United Kingdom

25 July 2014



# Consolidated financial statements

## Consolidated income statement for the year ended 30 June 2014

	Notes	2014 £m	2013 £m
Revenue	2	7 632	7 235
Operating expense	3	(6 471)	(5 944)
<b>Operating profit</b>		<b>1 161</b>	<b>1 291</b>
Share of results of joint ventures and associates	13	35	46
Investment income	4	26	28
Finance costs	4	(140)	(108)
<b>Profit before tax</b>	<b>5</b>	<b>1 082</b>	<b>1 257</b>
Taxation	7	(217)	(278)
<b>Profit for the year attributable to equity shareholders of the parent company</b>		<b>865</b>	<b>979</b>
Earnings per share from profit for the year (in pence)			
Basic	8	55.4p	60.7p
Diluted	8	54.9p	59.7p

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

All results relate to continuing operations

## Consolidated statement of comprehensive income for the year ended 30 June 2014

	2014 £m	2013 £m
<b>Profit for the year attributable to equity shareholders of the parent company</b>	<b>865</b>	<b>979</b>
Other comprehensive income		
Amounts recognised directly in equity that may subsequently be recycled to the income statement		
Gain on revaluation of available-for-sale investments	104	186
Loss on cash flow hedges	(176)	(27)
Tax on cash flow hedges	39	7
	(33)	166
Amounts reclassified and reported in the income statement		
Gain (loss) on cash flow hedges	137	(48)
Tax on cash flow hedges	(31)	11
	106	(37)
<b>Other comprehensive income for the year (net of tax)</b>	<b>73</b>	<b>129</b>
<b>Total comprehensive income for the year attributable to equity shareholders of the parent company</b>	<b>938</b>	<b>1 108</b>

All results relate to continuing operations



## Consolidated balance sheet

as at 30 June 2014

	Notes	2014 £m	2013 £m
<b>Non-current assets</b>			
Goodwill	10	1,019	999
Intangible assets	11	810	718
Property plant and equipment	12	1,088	1,041
Investments in joint ventures and associates	13	173	164
Available-for-sale investments	14	533	422
Deferred tax assets	15	31	38
Programme distribution rights	16	20	17
Trade and other receivables	17	7	17
Derivative financial assets	21	195	360
		<b>3,876</b>	<b>3,776</b>
<b>Current assets</b>			
Inventories	16	546	548
Trade and other receivables	17	635	591
Short-term deposits	21	295	595
Cash and cash equivalents	21	1,082	815
Derivative financial assets	21	15	20
		<b>2,573</b>	<b>2,569</b>
<b>Total assets</b>		<b>6,449</b>	<b>6,345</b>
<b>Current liabilities</b>			
Borrowings	20	11	11
Trade and other payables	18	2,286	2,023
Current tax liabilities		128	176
Provisions	19	48	94
Derivative financial liabilities	21	46	13
		<b>2,519</b>	<b>2,317</b>
<b>Non-current liabilities</b>			
Borrowings	20	2,658	2,909
Trade and other payables	18	56	63
Provisions	19	14	14
Derivative financial liabilities	21	129	29
Deferred tax liabilities	15	1	1
		<b>2,858</b>	<b>3,016</b>
<b>Total liabilities</b>		<b>5,377</b>	<b>5,333</b>
Share capital	23	781	797
Share premium	24	1,437	1,437
Reserves	24	(1,146)	(1,222)
<b>Total equity attributable to equity shareholders of the parent company</b>	<b>24</b>	<b>1,072</b>	<b>1,012</b>
<b>Total liabilities and shareholders' equity</b>		<b>6,449</b>	<b>6,345</b>

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

These consolidated financial statements of British Sky Broadcasting Group plc, registered number 02247735 have been approved and authorised for issue by the Board of Directors on 25 July 2014 and were signed on its behalf by

Jeremy Darroch  
Chief Executive Officer



Andrew Griffith  
Chief Financial Officer



# Consolidated financial statements

(continued)

## Consolidated cash flow statement for the year ended 30 June 2014

	Notes	2014 £m	2013 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	25	1769	1877
Interest received and dividends from available-for-sale investments		27	29
Taxation paid		(240)	(300)
<b>Net cash from operating activities</b>		<b>1,556</b>	<b>1,606</b>
<b>Cash flows from investing activities</b>			
Dividends received from joint ventures and associates		32	43
Net funding to joint ventures and associates		(6)	(4)
Proceeds on disposal of an investment		-	4
Purchase of property plant and equipment		(241)	(203)
Purchase of intangible assets		(302)	(251)
Purchase of subsidiaries (net of cash and cash equivalents purchased)		(20)	(197)
Purchase of available-for-sale investments		(7)	(9)
Decrease in short-term deposits		300	115
<b>Net cash used in investing activities</b>		<b>(244)</b>	<b>(502)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from borrowings		-	498
Repayment of obligations under finance leases		(4)	(1)
Proceeds from disposal of shares in Employee Share Ownership Plan ("ESOP")		11	15
Purchase of own shares for ESOP		(164)	(69)
Purchase of own shares for cancellation		(266)	(627)
Interest paid		(137)	(128)
Dividends paid to shareholders		(485)	(441)
<b>Net cash used in financing activities</b>		<b>(1,045)</b>	<b>(753)</b>
<b>Net increase in cash and cash equivalents</b>		<b>267</b>	<b>351</b>
Cash and cash equivalents at the beginning of the year		815	464
<b>Cash and cash equivalents at the end of the year</b>		<b>1,082</b>	<b>815</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 2014

	Share capital £m	Share premium £m	ESOP reserve £m	Hedging reserve £m	Available- for-sale reserve £m	Other reserves £m	Retained earnings £m	Total share- holders equity £m
At 1 July 2012	837	1,437	(112)	68	165	399	(1,850)	944
Profit for the year	-	-	-	-	-	-	979	979
Revaluation of available-for-sale investments	-	-	-	-	186	-	-	186
Recognition and transfer of cash flow hedges	-	-	-	(75)	-	-	-	(75)
Tax on items taken directly to equity	-	-	-	18	-	-	-	18
<b>Total comprehensive income for the year</b>	-	-	-	(57)	186	-	979	1108
Share-based payment	-	-	(35)	-	-	-	61	26
Tax on items taken directly to equity	-	-	-	-	-	-	8	8
Share buy-back programme (see note 24)								
- Purchase of own shares for cancellation	(40)	-	-	-	-	40	(617)	(617)
- Financial liability for close period purchases	-	-	-	-	-	-	(16)	(16)
Dividends	-	-	-	-	-	-	(441)	(441)
<b>At 30 June 2013</b>	<b>797</b>	<b>1,437</b>	<b>(147)</b>	<b>11</b>	<b>351</b>	<b>439</b>	<b>(1,876)</b>	<b>1,012</b>
Profit for the year	-	-	-	-	-	-	865	865
Revaluation of available-for-sale investments	-	-	-	-	104	-	-	104
Recognition and transfer of cash flow hedges	-	-	-	(39)	-	-	-	(39)
Tax on items taken directly to equity	-	-	-	8	-	-	-	8
<b>Total comprehensive income for the year</b>	-	-	-	(31)	104	-	865	938
Share-based payment	-	-	2	-	-	-	(95)	(93)
Tax on items taken directly to equity	-	-	-	-	-	-	9	9
Share buy-back programme (see note 24)								
- Purchase of own shares for cancellation	(16)	-	-	-	-	16	(250)	(250)
- Financial liability for close period purchases	-	-	-	-	-	-	(59)	(59)
Dividends	-	-	-	-	-	-	(485)	(485)
<b>At 30 June 2014</b>	<b>781</b>	<b>1,437</b>	<b>(145)</b>	<b>(20)</b>	<b>455</b>	<b>455</b>	<b>(1,891)</b>	<b>1,072</b>

For a description of the nature and purpose of each equity reserve see note 24

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

# Notes to the consolidated financial statements

## 1 Accounting policies

British Sky Broadcasting Group 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 any significant impact on the Group’s results or financial position. This includes the adoption of IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements”, IFRS 12 “Disclosure of Interests in Other Entities”, amendments to IAS 28 “Investments in Associates and Joint Ventures” and IFRS 13 “Fair Value Measurement”, where adoption on 1 July 2013 is considered to be early adoption for the purposes of complying with IFRS as endorsed by the European Union.

The Group maintains a 52 or 53 week fiscal year ending on the Sunday nearest to 30 June in each year. In fiscal year 2014, this date was 29 June 2014, this being a 52 week year (fiscal year 2013: 30 June 2013: 52 week year). For convenience purposes, the Group continues to date its consolidated financial statements as at 30 June and to refer to the accounting period as a “year” for reporting purposes. The Group has classified assets and liabilities as current when they are expected to be realised in, or intended for sale or consumption in, the normal operating cycle of the Group.

### c) Basis of consolidation

#### i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control is achieved where the Company has existing rights that give it the current ability to direct the 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. Intra-group balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

#### ii) Associates and joint ventures

Associates are entities where the Group has significant influence but not control or joint control over the relevant activities of the entity. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

These consolidated financial statements include the Group’s share of the total recognised gains and losses of associates and joint ventures using the equity method from the date that significant influence or joint control commences to the date that it ceases, based on present ownership interests and excluding the possible exercise of potential voting rights, less any impairment losses (see accounting policy i). When the Group’s interest in an associate or joint venture has been reduced to nil because the Group’s share of losses exceeds its interest in the associate or joint venture, the Group only provides for additional losses to the extent that it has incurred legal or constructive obligations to fund such losses, or where the Group has made payments on behalf of the associate or joint venture. Where the disposal of an investment in an associate or joint venture is considered to be highly probable, the investment ceases to be equity accounted and instead is classified as held for sale and stated at the lower of carrying amount and fair value less costs to sell.

### 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 at which the Group has the intention and ability to generate probable future economic benefits from the development expenditure, that the development is technically feasible and that the subsequent expenditure can be measured reliably. Any other development expenditure is recognised in operating expense as incurred.

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

Amortisation of an intangible asset begins when the asset is available for use and is charged to the income statement through operating expense on a straight-line basis over the intangible asset's estimated useful life, principally being a period between 1 and 25 years, unless the asset life is judged to be indefinite. During the year the Group revised the estimated useful life of certain intangible assets. The revisions were accounted for prospectively as a change in accounting estimate and as a result the amortisation charge in the current year has decreased by £24 million. If the useful life is 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.

#### li Property, plant and equipment

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

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

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

• Freehold buildings	25 to 40 years
• Equipment, furniture and fixtures	3 to 20 years
• Assets under finance leases and leasehold improvements	Lesser of lease term and the useful economic life of the asset

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 or fair value hedges and are subject to cash flow hedge accounting or fair value hedge accounting respectively. Certain other derivatives held by the Group do not meet the qualifying criteria for recognition for accounting purposes as hedges despite this being their economic function. Changes in the fair values of these derivatives are recognised immediately in the income statement. The Group does not hold or issue derivatives for speculative purposes.

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

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

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

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

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

# Notes to the consolidated financial statements

## (continued)

### 1 Accounting policies (continued)

#### 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 inventories 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 26). Payments made upon receipt of commissioned and acquired programming, but in advance of the legal right to broadcast the programmes, are treated as prepayments.

The cost of television programme inventories is recognised in the operating expense line of the income statement, primarily as described below:

- Sports – 100% 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 principally recognised on a straight-line basis across the seasons or competitions.
- News – 100% of the cost is recognised in the income statement on first broadcast.
- Movies – The cost is recognised in the income statement on a straight-line basis over the period of broadcast rights.
- General entertainment – The cost is recognised in the income statement based on the expected value of each planned broadcast.

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 the operating expense line of the income statement on an ultimate revenue forecast basis.

#### iii Set-top boxes, routers and related equipment

Set-top boxes, routers and related equipment are valued at the lower of cost and NRV, the latter of which reflects the value that the business expects to realise from the set-top boxes and related equipment in the hands of the customer, and are recognised through the operating expense line of the income statement. Any subsidy is expensed on enablement, which is the process of activating the viewing card during installation, so as to enable a viewer to view encrypted broadcast services, and effectively represents the completion of the installation process for new customers. The amount recognised in the income statement is determined on a weighted average cost basis, in accordance with IAS 2 "Inventory".

#### iv Raw materials, consumables and goods held for resale

Raw materials, consumables and goods held for resale are valued at the lower of cost and NRV. The cost of raw materials, consumables and goods held for resale is recognised through the operating expense line of the income statement on a first-in-first-out basis.

### h) Financial assets and liabilities

Financial assets and liabilities are initially recognised at fair value plus any directly attributable transaction costs. At each balance sheet date, the Group assesses whether there is any objective evidence that any financial asset is impaired. Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the financial asset or liability. Financial assets are derecognised from the balance sheet when the Group's contractual rights to the cash flows expire or the Group transfers substantially all the risks and rewards of the financial asset. Financial liabilities are derecognised from the Group's balance sheet when the obligation specified in the contract is discharged, cancelled or expires.

**i) Available-for-sale investments**

Equity investments intended to be held for an indefinite period are classified as available-for-sale investments. They are carried at fair value where this can be reliably measured with movements in fair value recognised directly in the available-for-sale reserve. Where the fair value cannot be reliably measured the investment is carried at cost.

Any impairment losses in equity investments classified as available-for-sale investments are recognised in the income statement and are not reversible through the income statement and are determined with reference to the closing market share price at the balance sheet date. Any subsequent increase in the fair value of the available-for-sale investment above the impaired value will be recognised within the available-for-sale reserve.

Available-for-sale investments are included within non-current assets unless the carrying value is expected to be recovered principally through sale rather than continuing use in which case they are included within current assets. On disposal the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had previously been recognised directly in reserves is recognised in the income statement.

**ii) Trade and other receivables**

Trade and other receivables are non-derivative financial assets with fixed or determinable payments and, where no stated interest rate is applicable, are measured at the original invoice amount. If the effect of discounting is immaterial, where discounting is material, trade and other receivables are measured at amortised cost using the effective interest method. An allowance account is maintained to reduce the carrying value of trade and other receivables for impairment losses identified from objective evidence, with movements in the allowance account either from increased impairment losses or reversals of impairment losses being recognised in the income statement.

**iii) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, bank accounts, deposits receivable on demand and deposits with maturity dates of three months or less from the date of inception. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are also included as a component of cash and cash equivalents where offset conditions are met.

**iv) Short-term deposits**

This includes short-term deposits which have maturity dates of more than three months from inception. These deposits are initially recognised at fair value and then carried at amortised cost through the income statement less any allowance for impairment losses.

**v) Trade and other payables**

Trade and other payables are non-derivative financial liabilities and are measured at amortised cost using the effective interest method. Trade and other payables with no stated interest rate are measured at the original invoice amount if the effect of discounting is immaterial.

**vi) Borrowings**

Borrowings are recorded as the proceeds received net of direct issue costs. Finance charges, including any premium payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying amount of the underlying instrument to which they relate to the extent that they are not settled in the period in which they arise.

**ii) Impairment**

At each balance sheet date in accordance with IAS 36 "Impairment of Assets" the Group reviews the carrying amounts of all its assets excluding inventories (see accounting policy g), non-current assets classified as held for sale, financial assets (see accounting policy h) and deferred taxation (see accounting policy o) to determine whether there is any indication that any of those assets have suffered an impairment loss.

An impairment is recognised in the income statement whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. An impairment of an investment in a joint venture or associate is recognised within the share of profit from joint ventures and associates. The recoverable amount is the greater of net selling price, defined as the fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to those units and then to reduce the carrying amount of other assets in the unit on a pro-rata basis.

An impairment loss for an individual asset or cash generating unit will be reversed if there has been a change in estimates used to determine the recoverable amount since the last impairment loss was recognised and is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation if no impairment loss had been recognised. Impairment of goodwill is not reversed.

**j) Provisions**

Provisions are recognised when the Group has a probable present legal or constructive obligation to make a transfer of economic benefits as a result of past events where a reliable estimate is available. The amounts recognised represent the Group's best estimate of the transfer of benefits that will be required to settle the obligation as of the balance sheet date. Provisions are discounted if the effect of the time value of money is material using a pre-tax market rate adjusted for risks specific to the liability.

**k) ESOP reserve**

Where the Company or its subsidiaries purchase 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.

# Notes to the consolidated financial statements

## (continued)

### 1 Accounting policies (continued)

#### l) Revenue recognition

Revenue which excludes value added tax and transactions between Group companies represents the gross inflow of economic benefit from Sky's operating activities. The Group's main sources of revenue are recognised as follows:

- Retail subscription revenue including subscriptions for TV and over-the-top services. Sky Broadband and Sky Talk services is recognised as the goods or services are provided net of any discount given. Pay-per-view and transactional revenue is recognised when the event or movie is viewed.
- Wholesale revenue is recognised as the services are provided 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.
- 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.
- Installation hardware and service revenue is recognised in the income statement when the goods and services are activated.
- Other revenue principally includes income from Sky Bet technical platform services, third party set-top box sales, public access WiFi services and programme distribution fees. With the exception of Sky Bet revenue, other revenue is recognised net of any discount given when the relevant goods or service are provided. Sky Bet revenue is recognised in accordance with IAS 39 and represents income in the period for betting and gaming activities defined as amounts staked by customers less winnings paid out.

Revenue is measured at the fair value of the consideration received or receivable. When the Group sells a set-top box, installation or service and a subscription in one bundled transaction, the total consideration from the arrangement is allocated to each element based on their relative fair values. The fair value of each individual element is determined using vendor specific or third party evidence. The amount of revenue the Group recognises for delivered elements is limited to the cash received.

#### m) Employee benefits

Wages, salaries, social security contributions, bonuses payable and non-monetary benefits for current employees are recognised in the income statement as the employees' services are rendered.

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.

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 profit or loss.

#### 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.

When the Group is a lessor, 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 of the lease obligation 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.

#### o) Taxation including deferred taxation

The Group's liability for current tax is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are recognised using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profit. Temporary differences arising from goodwill and 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 divided by the weighted average number of ordinary shares in issue during the year excluding the weighted average number of ordinary shares purchased by the Group 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 divided by the weighted average number of ordinary shares in issue during the year excluding the weighted average number of ordinary shares purchased by the Group and held in the Group's ESOP during the year to satisfy employee share awards 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

The Group's presentational currency is pounds sterling. Trading activities denominated in foreign currencies are recorded in pounds sterling at the applicable monthly exchange rates. Monetary assets, liabilities and commitments denominated in foreign currencies at the balance sheet date are reported at the rates of exchange at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated to pounds sterling at the exchange rate prevailing at the date of the initial transaction. Gains and losses from the retranslation of assets and liabilities are included net in profit for the year except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

The 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 and transferred to other reserves.

#### 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 as the internal reporting reviewed by the Board focuses on the operations of the Group as a whole and does not identify individual operating segments, the Group has only one reportable segment.

#### 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 our accounting periods beginning on or after 1 July 2014 or later periods. These new pronouncements are listed below:

- Amendments to IAS 36 "Impairment of Assets" (effective 1 January 2014)
- Amendments to IAS 32 "Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities" (effective 1 January 2014)
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting" (effective 1 January 2014)
- Annual Improvements 2010-2012 cycle (effective 1 July 2014)\*
- Annual Improvements 2011-2013 cycle (effective 1 July 2014)\*
- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" (effective 1 January 2016)\*
- Amendments to IAS 16 and IAS 38 "Classification of Acceptable Methods of Depreciation and Amortisation" (effective 1 January 2016)\*
- IFRS 15 "Revenue from Contracts with Customers" (effective 1 January 2017)\*
- IFRS 9 "Financial Instruments" (effective 1 January 2018)\*
- \* not yet endorsed for use in the EU

The Directors are currently evaluating the impact of the adoption of these standards, amendments and interpretations in future periods.

#### u) Critical accounting policies and the use of judgement

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. Below is a summary of the Group's critical accounting policies and details of the key areas of judgement that are exercised in their application.

# Notes to the consolidated financial statements

## (continued)

### 1 Accounting policies (continued)

#### i Revenue (see note 2)

Selecting the appropriate timing for and amount of revenue to be recognised requires judgement. This may involve estimating the fair value of consideration before it is received. When the Group sells a set-top box, installation or service and a subscription in one bundled transaction, the total consideration from the arrangement is allocated to each element based on its relative fair value. The fair value of each individual element is determined using vendor specific or third party evidence. The amount of revenue the Group recognises for delivered elements is limited to the cash received.

#### ii Taxation, including deferred taxation (see notes 7 and 15)

The Group's tax charge is the sum of the total 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 country-specific tax law and the likelihood of settlement. 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.

#### iii Acquisition accounting and goodwill (see note 10)

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.

Judgement is also 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.

#### iv Intangible assets and property plant and equipment (see notes 11 and 12)

The assessment of the useful economic lives of these assets requires judgement. Depreciation and amortisation is charged to the income statement based on the useful economic life selected. This assessment requires estimation of the period over which the Group will benefit from the assets.

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 16)

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 and the relative value associated with each broadcast. In order to perform this assessment, the Group considers the following factors:

- The period over which the programme is expected to be shown on the Group's channels. This is usually based on a combination of the actual period specified in the contract for the programme rights and the initial expectation of when repeat broadcasts will be scheduled.
- The alternative programming available to the Group for scheduling within this period. This consideration provides the most appropriate information in order to estimate how frequently individual programmes will be shown during the period in which the Group holds their broadcast rights.
- The potential benefits associated with scheduling programming. Certain high-profile or high-quality programming titles have additional value to the Group as they attract new TV customers and encourage retention of existing TV customers. As such, these programmes are able to retain more value throughout their broadcast runs than would be indicated when considering the expected viewing numbers alone.
- Expectations as to the number of viewers a programme is likely to achieve for each individual broadcast 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.

## 2 Revenue

	2014 £m	2013 £m
Retail subscription	6,255	5,951
Wholesale subscription	422	396
Advertising	472	440
Installation, hardware and service	85	87
Other	398	361
	<b>7,632</b>	<b>7,235</b>

Revenue arises from goods and services provided to the UK, with the exception of £478 million (2013: £461 million) which arises from services provided to other countries. Included within wholesale subscription revenue for the year ended 30 June 2014 is £15 million credit received following the termination of an escrow agreement with a current wholesale operator.

## 3 Operating expense

	2014 £m	2013 £m
Programming	2,662	2,487
Direct networks	850	686
Marketing	1,215	1,117
Subscriber management and supply chain	694	673
Transmission, technology and fixed networks	460	405
Administration	590	576
	<b>6,471</b>	<b>5,944</b>

Included within operating expenses for the year ended 30 June 2014 are:

- Costs of £72 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business, including amortisation of £27 million in relation to associated intangible assets. The costs have been recognised as follows:
    - £31 million within direct networks
    - £24 million within administration
    - £13 million within transmission, technology and fixed networks
    - £3 million within subscriber management and supply chain
    - £1 million within marketing
  - Costs of £40 million relating to a corporate restructuring and efficiency programme in the current year including an impairment of £2 million in relation to associated intangible and tangible assets. These costs have been recognised as follows:
    - £22 million within administration
    - £15 million within marketing
    - £3 million within subscriber management and supply chain
- Costs of £2 million as a result of the termination of an escrow agreement with a current wholesale operator. This cost has been recognised within administration.

Included within operating expenses for the year ended 30 June 2013 are:

- Credit of £32 million relating to a credit note received following an Ofcom determination. This credit has been recognised within direct networks.
- Credit of £33 million relating to the final settlement of disputes with a former manufacturer of set top boxes, net of associated costs and including an impairment of £6 million in relation to associated intangible assets. This credit has been recognised within subscriber management and supply chain.
- Costs of £31 million relating to the one-off upgrade of set top boxes. The costs have been recognised within subscriber management and supply chain.
- Costs of £25 million relating to a programme to offer wireless connectors to selected Sky Movies customers. The costs have been recognised within subscriber management and supply chain.
- Costs of £15 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business, including amortisation of £4 million in relation to associated intangible assets. The costs have been recognised as follows:
  - £7 million within administration
  - £3 million within direct networks
  - £3 million within transmission, technology and fixed networks
  - £2 million within subscriber management and supply chain
- Costs of £33 million relating to a corporate efficiency programme in the prior year including an impairment of £6 million in relation to associated intangible and tangible assets. The costs have been recognised as follows:
  - £29 million within administration
  - £1 million within programming
  - £1 million within marketing
  - £1 million within subscriber management and supply chain
  - £1 million within transmission, technology and fixed networks

# Notes to the consolidated financial statements

## (continued)

### 4 Investment income and finance costs

	2014 £m	2013 £m
<b>Investment income</b>		
Interest on cash, cash equivalents and short-term deposits	4	9
Dividends received from available-for-sale investments	22	19
	<b>26</b>	<b>28</b>
	2014 £m	2013 £m
<b>Finance costs</b>		
- Interest payable and similar charges		
£743 million Revolving Credit Facility ("RCF")	(2)	(2)
Guaranteed Notes (see note 20)	(126)	(122)
Finance lease interest	(7)	(7)
	<b>(135)</b>	<b>(131)</b>
- Other finance income (expense)		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	(2)	22
Remeasurement of other derivative financial instruments (not qualifying for hedge accounting)	(4)	(1)
Loss arising on derivatives in a designated fair value hedge accounting relationship	(31)	(34)
Gain arising on adjustment for hedged item in a designated fair value hedge accounting relationship	32	36
	<b>(5)</b>	<b>23</b>
	<b>(140)</b>	<b>(108)</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 4.9% (2013: 5.2%) to expenditure on such assets. The amount capitalised in the current year amounted to £4 million (2013: £2 million).

### 5 Profit before taxation

Profit before taxation is stated after charging

	2014 £m	2013 £m
Cost of inventories recognised as an expense	2,208	1,992
Depreciation and impairment of property, plant and equipment	208	176
Amortisation and impairment of intangible assets	228	202
Rentals on operating leases and similar arrangements	49	51

Consolidated non-current assets outside the UK were £3 million (2013: £8 million).

#### Foreign exchange

Foreign exchange losses recognised in the income statement during the year amounted to £2 million (2013: losses of £1 million).

#### Audit fees

An analysis of auditor's remuneration is as follows:

	2014 £m	2013 £m
Total audit fees	16	13
Total non-audit fees	14	11
<b>Total auditor remuneration</b>	<b>30</b>	<b>24</b>

Fees payable to the Company's auditor for the audit of the Company's annual accounts were £1.3 million (2013: £1.2 million) and fees payable to the Company's auditor for the audit of the Company's subsidiaries pursuant to legislation were £0.3 million (2013: £0.1 million).

Amounts paid to the auditor for non-audit fees include audit related services of £0.2 million (2013: £0.3 million), taxation services of £0.5 million (2013: £0.3 million), other assurance services of £0.1 million (2013: £0.3 million), other advisory services of nil (2013: nil) and transaction services of £0.6 million (2013: £0.2 million).

## 6 Employee benefits and key management compensation

### a) Group employee benefits

	2014 £m	2013 £m
Wages and salaries	844	781
Social security costs	101	101
Costs of employee share option schemes <sup>(i)</sup>	60	80
Contributions to the Group's pension schemes <sup>(ii)</sup>	39	27
	<b>1,044</b>	<b>989</b>

(i) £60 million charge relates to equity-settled share-based payments (2013: £80 million charge).

(ii) 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 2014 was £5 million (2013: £2 million).

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

	2014 Number	2013 Number
Channels and services	3,477	2,701
Customer service sales and marketing	13,035	11,943
Transmission and technology	3,257	3,651
Management and administration	1,072	1,118
	<b>20,841</b>	<b>19,413</b>

There are approximately 497 (2013: 523) temporary staff included within the average number of full-time equivalent persons employed by the Group

### b) Key management compensation (see note 28d)

	2014 £m	2013 £m
Short-term employee benefits	6	6
Share-based payments	7	10
	<b>13</b>	<b>16</b>

Post-employment benefits were less than £1 million (2013: less than £1 million). The amounts disclosed for key management compensation are included within the disclosures in note 6(a).

# Notes to the consolidated financial statements

(continued)

## 7 Taxation

### a) Taxation recognised in the income statement

	2014 £m	2013 £m
Current tax expense		
Current year	232	332
Adjustment in respect of prior years	(31)	(44)
<b>Total current tax charge</b>	<b>201</b>	<b>288</b>
Deferred tax expense		
Origination and reversal of temporary differences	5	(20)
Adjustment in respect of prior years	11	10
<b>Total deferred tax charge (credit)</b>	<b>16</b>	<b>(10)</b>
<b>Taxation</b>	<b>217</b>	<b>278</b>

Taxation relates to a £215 million UK corporation tax charge (2013: £275 million) and £2 million overseas corporation tax charge (2013: £3 million)

### b) Taxation recognised directly in equity

	2014 £m	2013 £m
Current tax credit relating to share-based payments	(9)	(2)
Deferred tax credit relating to share-based payments	-	(6)
Deferred tax credit relating to cash flow hedges	(8)	(18)
	<b>(17)</b>	<b>(26)</b>

### c) Reconciliation of effective tax rate

The tax expense for the year is lower (2013: lower) than the expense that would have been charged using the blended rate of corporation tax in the UK (22.5%) applied to profit before tax. The applicable enacted or substantively enacted effective rate of UK corporation tax for the year was 22.5% (2013: 23.75%). The differences are explained below:

	2014 £m	2013 £m
Profit before tax	1,082	1,257
Profit before tax multiplied by blended rate of corporation tax in the UK of 22.5% (2013: 23.75%)	243	299
Effects of:		
Net effect of non-taxable/non-deductible items	(8)	13
Deferred tax write-off following tax rate change	2	-
Adjustments in respect of prior years	(20)	(34)
<b>Taxation</b>	<b>217</b>	<b>278</b>

## 8 Earnings per share

The weighted average number of shares for the year was

	2014 Millions of shares	2013 Millions of shares
Ordinary shares	1,581	1,633
ESOP trust ordinary shares	(19)	(19)
<b>Basic shares</b>	<b>1,562</b>	<b>1,614</b>
Dilutive ordinary shares from share options	14	26
<b>Diluted shares</b>	<b>1,576</b>	<b>1,640</b>

There are no share options (2013: 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.

Basic and diluted earnings per share are calculated by dividing the profit for the year into 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.

	2014 £m	2013 £m
Reconciliation from profit for the year to adjusted profit for the year		
Profit for the year	865	979
Costs relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business (see note 3)	72	15
Costs relating to corporate restructuring and efficiency programmes (see note 3)	40	33
Net credit received following termination of an escrow agreement with a current wholesale operator (see notes 2 and 3)	(13)	-
Credit received following an Ofcom determination (see note 3)	-	(32)
Costs relating to programme to offer wireless connectors to selected Sky Movies customers (see note 3)	-	25
Net credit received following final settlement of disputes with a former manufacturer of set-top boxes and costs relating to one-off upgrade of set-top boxes (see note 3)	-	(2)
Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness (see note 4)	5	(23)
Profit on disposal of joint venture (see note 13)	-	(9)
Tax adjusting items and the tax effect of above items	(32)	(17)
<b>Adjusted profit for the year</b>	<b>937</b>	<b>969</b>

	2014 pence	2013 pence
Earnings per share from profit for the year		
Basic	55.4p	60.7p
Diluted	54.9p	59.7p
Adjusted earnings per share from adjusted profit for the year		
Basic	60.0p	60.0p
Diluted	59.5p	59.1p

# Notes to the consolidated financial statements

## (continued)

### 9 Dividends

	2014 £m	2013 £m
Dividends declared and paid during the year		
2012 Final dividend paid 16.20p per ordinary share	-	265
2013 Interim dividend paid 11.00p per ordinary share	-	176
2013 Final dividend paid 19.00p per ordinary share	298	-
2014 Interim dividend paid 12.00p per ordinary share	187	-
	<b>485</b>	<b>441</b>

The 2014 final dividend proposed is 20.0 pence per ordinary share being £309 million. The dividend was not declared at the balance sheet date and is therefore not recognised as a liability as at 30 June 2014.

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.

### 10 Goodwill

	£m
Carrying value	
At 1 July 2012	956
Purchase of O2 consumer broadband and fixed-line telephony business	49
Other	(5)
<b>At 30 June 2013</b>	<b>999</b>
Other	20
<b>At 30 June 2014</b>	<b>1,019</b>

Goodwill has principally arisen from the Group's purchases of the Sports Internet Group ("SIG"), British Interactive Broadcasting ("BiB"), Easynet's UK broadband network assets and residential activities, 365 Media, 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:

	2014 £m	2013 £m
Broadcast <sup>(1)</sup>	870	850
Betting and gaming <sup>(2)</sup>	149	149
	<b>1,019</b>	<b>999</b>

Impairment reviews were performed on these goodwill balances at 30 June 2014, which did not indicate impairment.

The Broadcast unit includes intangibles with indefinite lives of £25 million (2013: £25 million).

Recoverable amounts for the cash generating units were calculated on the basis of value in use or fair value less costs to sell as appropriate using cash flows calculated for the next five years as forecast by management. A long-term growth rate of 3% was applied in order to extrapolate cash flow projections beyond this period (2013: 3%). The cash flows of the Broadcast unit were discounted using a pre-tax discount rate of 8% (2013: 8%) and the cash flows of the Betting and gaming unit were discounted using a pre-tax discount rate of 10% (2013: 10%).

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 considers capital structure and an appropriate cost of debt in arriving at the discount rate.

#### i) Broadcast

The Broadcast 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 key assumptions on which forecast five-year cash flows of the Broadcast 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 UK and Ireland entertainment and communications industry.

#### ii) Betting and gaming

The Betting and gaming unit includes goodwill arising from the purchase of SIG and 365 Media's betting activities. The key assumptions on which forecast five-year cash flows were based include the number of weekly unique users, the number of bets placed per user per week, the average stake per user per week and the average spend per active user per week. The values assigned to each of these assumptions were determined based on an extrapolation of historical trends within the unit and external information on expected future trends in betting and gaming.



## 11 Intangible assets

	Internally generated intangible assets £m	Software development (external) and software licences £m	Customer contracts and related customer relationships £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 2012	252	427	60	224	54	103	1,120
Additions from business combinations	-	-	137	2	-	-	139
Additions	102	45	-	66	25	20	258
Disposals	(15)	(6)	-	-	(2)	(7)	(30)
Transfers	47	59	-	-	(47)	(59)	-
<b>At 30 June 2013</b>	<b>386</b>	<b>525</b>	<b>197</b>	<b>292</b>	<b>30</b>	<b>57</b>	<b>1,487</b>
Additions from business combinations	-	-	6	2	-	-	8
Additions	87	36	-	64	84	41	312
Disposals	(18)	(14)	-	(3)	-	-	(35)
Transfers	43	11	-	1	(43)	(12)	-
<b>At 30 June 2014</b>	<b>498</b>	<b>558</b>	<b>203</b>	<b>356</b>	<b>71</b>	<b>86</b>	<b>1,772</b>
<b>Amortisation</b>							
At 1 July 2012	122	308	9	158	-	-	597
Amortisation	72	55	7	57	-	-	191
Disposals	(15)	(6)	-	-	(2)	(7)	(30)
Impairments	2	-	-	-	2	7	11
<b>At 30 June 2013</b>	<b>181</b>	<b>357</b>	<b>16</b>	<b>215</b>	<b>-</b>	<b>-</b>	<b>769</b>
Amortisation	76	53	26	71	-	-	226
Disposals	(18)	(14)	-	(3)	-	-	(35)
Impairments	-	1	-	1	-	-	2
<b>At 30 June 2014</b>	<b>239</b>	<b>397</b>	<b>42</b>	<b>284</b>	<b>-</b>	<b>-</b>	<b>962</b>
<b>Carrying amounts</b>							
At 1 July 2012	130	119	51	66	54	103	523
At 30 June 2013	205	168	181	77	30	57	718
At 30 June 2014	259	161	161	72	71	86	810

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, connection fees and patents and brands acquired in business combinations.

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.

	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m
<b>Estimated amortisation charge</b>	<b>230</b>	<b>183</b>	<b>151</b>	<b>105</b>	<b>55</b>

For intangible assets acquired in business combinations in the year, the average amortisation period is 8 years (2013: 6 years).

Other intangible assets include certain assets with indefinite useful lives. The carrying value of these assets is £25 million (2013: £25 million). An impairment review of the assets is performed annually as part of the Group's review of the Broadcast CGU (note 10).

# Notes to the consolidated financial statements

(continued)

## 12 Property, plant and equipment

	Freehold land and buildings <sup>(i)(ii)</sup> £m	Leasehold improvements £m	Equipment, furniture and fixtures £m	Assets not yet available for use £m	Total £m
<b>Cost</b>					
At 1 July 2012	333	59	1210	27	1629
Additions from business combinations	-	-	25	-	25
Additions	1	1	194	48	244
Disposals	-	(2)	(64)	-	(66)
Transfers	-	-	22	(22)	-
<b>At 30 June 2013</b>	<b>334</b>	<b>58</b>	<b>1387</b>	<b>53</b>	<b>1,832</b>
Additions	4	-	131	119	254
Disposals	-	(1)	(74)	-	(75)
Transfers	31	-	34	(65)	-
<b>At 30 June 2014</b>	<b>369</b>	<b>57</b>	<b>1,478</b>	<b>107</b>	<b>2,011</b>
<b>Depreciation</b>					
At 1 July 2012	40	27	614	-	681
Depreciation	6	8	160	-	174
Disposals	-	(2)	(64)	-	(66)
Impairments	-	1	1	-	2
<b>At 30 June 2013</b>	<b>46</b>	<b>34</b>	<b>711</b>	<b>-</b>	<b>791</b>
Foreign exchange movements	-	-	(1)	-	(1)
Depreciation	8	7	193	-	208
Disposals	-	(1)	(74)	-	(75)
<b>At 30 June 2014</b>	<b>54</b>	<b>40</b>	<b>829</b>	<b>-</b>	<b>923</b>
<b>Carrying amounts</b>					
At 1 July 2012	293	32	596	27	948
At 30 June 2013	288	24	676	53	1041
<b>At 30 June 2014</b>	<b>315</b>	<b>17</b>	<b>649</b>	<b>107</b>	<b>1,088</b>

(i) The amounts shown include assets held under finance leases with a net book value of £14 million (2013: £13 million). The cost of these assets was £23 million (2013: £20 million) and the accumulated depreciation was £9 million (2013: £7 million). Depreciation charged during the year on such assets was £2 million (2013: £1 million).

(ii) Depreciation was not charged on £88 million of land (2013: £88 million).

### 13 Investments in joint ventures and associates

A list of the Group's significant investments in joint ventures and associates including the name, country of incorporation and proportion of ownership interest is given in note 30 to the consolidated financial statements

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

	2014 £m	2013 £m
<b>Share of net assets</b>		
At 1 July	164	156
Movement in net assets		
- Funding, net of repayments	6	4
- Dividends received <sup>(i)</sup>	(32)	(43)
- Share of profits <sup>(i)</sup>	35	46
- Disposal of joint venture <sup>(i)</sup>	-	(1)
- Exchange differences on translation of foreign joint ventures and associates	-	2
<b>At 30 June</b>	<b>173</b>	<b>164</b>

(i) During the prior year the Group disposed of its interest in MUTV Limited. Included in share of profits for the year is a profit on disposal of £9 million. Consideration received on the sale of £10 million is included within dividends received

The Group's share of any capital commitments and contingent liabilities of associates and joint ventures is shown in note 26

#### a) Investments in associates

Representing a 100% share of two material associates: NGC Network International LLC and NGC Network Latin America LLC in aggregate

	2014 £m	2013 £m
Non-current assets	83	67
Current assets	236	241
Current liabilities	(73)	(86)
<b>Shareholders' equity</b>	<b>246</b>	<b>222</b>
Group's share of shareholders' equity	52	47
Consolidation and other adjustments	80	82
<b>Investment in associates</b>	<b>132</b>	<b>129</b>
Revenue	323	325
<b>Profit from continuing operations</b>	<b>106</b>	<b>107</b>

#### b) Investments in joint ventures

Representing the Group's share of each joint venture

	2014 £m	2013 £m
Non-current assets	26	19
Current assets	66	71
Current liabilities	(74)	(32)
Non-current liabilities	(1)	(40)
<b>Shareholders' equity</b>	<b>17</b>	<b>18</b>
Revenue	93	90
Expense	(77)	(70)
Taxation	(3)	(5)
<b>Share of profit from joint ventures</b>	<b>13</b>	<b>15</b>

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 2014 (2013: £35 million)

# Notes to the consolidated financial statements

(continued)

## 14 Available-for-sale investments

	2014 £m	2013 £m
Investment in ITV at cost	946	946
Impairment of ITV investment	(807)	(807)
Realised gain on ITV investment	115	115
Part disposal of ITV investment	(196)	(196)
Unrealised gain on ITV investment	456	351
ITV investment	514	409
Other investments	19	13
	533	422

On 17 November 2006 the Group acquired 696 million shares in ITV at a price of 135 pence per share representing 179% of the issued capital of ITV for a total consideration of £946 million including fees and taxes. The Group's investment in ITV is carried at fair value.

The fair value is determined with reference to its equity share price at the balance sheet date. In accordance with IFRS, the Group has recognised impairment losses in the years ended 30 June 2008 and 30 June 2009, the first of which was recorded at 31 December 2007 due to the significant and prolonged decline in the equity share price. The latest impairment loss was determined with reference to ITV's closing equity share price of 20.0 pence at 27 March 2009 bringing the cumulative impairment loss to £807 million. In line with IFRS, all subsequent increases in the fair value of the ITV investment above this impaired value have been recorded in the available-for-sale reserve.

On 8 February 2010 the Group placed a shareholding of 10.4% in ITV in accordance with the final undertakings given by the Group to the Secretary of State for Business, Innovation and Skills relating to the Group's investment in ITV. The placing by the Group of 404,362,095 ITV shares at 48.5 pence per share resulted in aggregate consideration of £196 million. A profit of £115 million was realised on disposal being the excess of the consideration above the impaired value of the shares. The disposal was exempt from tax under the provisions of the Substantial Shareholding Exemption ("SSE") and as such the SSE provisions prevented any capital loss arising for tax purposes.

At 30 June 2014 the Group held 7.23% of the shares in ITV. On 17 July 2014 the Group sold a shareholding of approximately 6.4% in ITV consisting of 259,820,065 ITV shares. For further details refer to note 29. The disposal of these shares in ITV will not be eligible for SSE but the gain on disposal of the shares will be covered by capital losses.

## 15 Deferred tax

### 1) Recognised deferred tax assets (liabilities)

	Accelerated tax depreciation £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 2012	12	1	6	26	(30)	15
(Charge) credit to income	(2)	(1)	-	18	(5)	10
Credit to equity	-	-	-	6	18	24
Acquisition of subsidiaries	(12)	-	-	-	-	(12)
Effect of change in tax rate	-	-	-	-	-	-
- Income	1	-	(1)	(1)	1	-
At 30 June 2013	(1)	-	5	49	(16)	37
Credit (charge) to income	4	-	(1)	(18)	1	(14)
Credit to equity	-	-	-	1	9	10
Acquisition of subsidiaries	1	-	-	-	-	1
Effect of change in tax rate	-	-	-	-	-	-
- Income	-	-	-	(3)	1	(2)
- Equity	-	-	-	(1)	(1)	(2)
At 30 June 2014	4	-	4	28	(6)	30

Deferred tax assets have been recognised at 30 June 2014 and 30 June 2013 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. Tax losses are treated as unrecognised deferred tax assets if it is not considered probable that suitable future taxable profits will arise. During the year, any tax losses suffered by UK entities have been relieved against taxable profits in other UK entities in the Group.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the periods in which they reverse. The rate enacted or substantively enacted for the relevant periods of reversal is 20% as at 30 June 2014 (2013: 23%).

The rate is due to come into effect on 1 April 2015.

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

	2014 £m	2013 £m
Deferred tax assets	52	70
Deferred tax liabilities	(22)	(33)
	30	37

#### ii) Unrecognised deferred tax assets

	2014 £m	2013 £m
Tax losses arising from trading	245	271
Tax losses arising from capital disposals and provisions against investments	283	323
	528	594

Deferred tax assets have not been recognised in respect of the items above because it is not probable that future taxable profits will be available against which the Group can utilise the losses.

At 30 June 2014, a deferred tax asset of £9 million (2013: £15 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 2014, a deferred tax asset of £236 million (2013: £256 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 £233 million (2013: £250 million) with respect to the Group's German holding company's former investment in KirchPayTV and £3 million (2013: £6 million) with respect to other subsidiaries.

At 30 June 2014, a deferred tax asset of £274 million (2013: £312 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 2014, the Group also has capital losses with a tax value estimated to be £9 million (2013: £11 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.

#### 16 Inventories

	2014 £m	2013 £m
Television programme rights	488	470
Set-top boxes and related equipment	50	70
Other inventories	8	8
<b>Current inventory</b>	<b>546</b>	<b>548</b>
Non-current programme distribution rights	20	17
<b>Total inventory</b>	<b>566</b>	<b>565</b>

At 30 June 2014, 81% (2013: 89%) of the television programme rights and 100% (2013: 100%) of set-top boxes and related equipment and other inventories is expected to be recognised in the income statement within 12 months.

# Notes to the consolidated financial statements

(continued)

## 17 Trade and other receivables

	2014 £m	2013 £m
Gross trade receivables	235	163
Less: provision for impairment of receivables	(95)	(89)
<b>Net trade receivables</b>	<b>140</b>	<b>74</b>
Amounts receivable from joint ventures and associates	7	8
Amounts receivable from other related parties	5	7
Prepayments	279	309
Accrued income	179	162
VAT	2	1
Other	23	30
<b>Current trade and other receivables</b>	<b>635</b>	<b>591</b>
Prepayments	4	6
Other receivables	3	11
<b>Non-current trade and other receivables</b>	<b>7</b>	<b>17</b>
<b>Total trade and other receivables</b>	<b>642</b>	<b>608</b>

Included within current trade and other receivables is nil (2013: 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

	2014 £m	2013 £m
Up to 30 days past due date	107	52
30 to 60 days past due date	4	5
60 to 120 days past due date	2	2
	<b>113</b>	<b>59</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

	2014 £m	2013 £m
Balance at beginning of year	89	89
Amounts utilised	(27)	(36)
Provided during the year	33	36
<b>Balance at end of year</b>	<b>95</b>	<b>89</b>

## 18 Trade and other payables

	2014 £m	2013 £m
Trade payables <sup>(i)</sup>	802	712
Amounts owed to joint ventures and associates	11	9
Amounts owed to other related parties	124	102
VAT	169	143
Accruals	747	685
Deferred income	318	295
Other	115	77
<b>Current trade and other payables</b>	<b>2,286</b>	<b>2,023</b>
Trade payables	23	18
Amounts owed to other related parties	10	-
Deferred income	5	9
Other	18	36
<b>Non-current trade and other payables</b>	<b>56</b>	<b>63</b>
<b>Total trade and other payables</b>	<b>2,342</b>	<b>2,086</b>

(i) Included within trade payables are £213 million (2013: £225 million) of US dollar-denominated payables

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.

## 19 Provisions

	At 1 July 2012 £m	Reclassified during the year £m	Provided (released) during the year £m	Utilised during the year £m	At 1 July 2013 £m	Provided during the year £m	Utilised during the year £m	At 30 June 2014
<b>Current liabilities</b>								
Restructuring provision <sup>(i)</sup>	6	-	13	(3)	16	14	(8)	22
Acquired and acquisition-related provisions <sup>(ii)</sup>	15	(1)	(14)	-	-	-	-	-
Customer-related provisions <sup>(iii)</sup>	-	-	47	(6)	41	-	(39)	2
Other provisions <sup>(iv)</sup>	22	17	17	(19)	37	6	(19)	24
	43	16	63	(28)	94	20	(66)	48
<b>Non-current liabilities</b>								
Other provisions <sup>(v)</sup>	12	2	6	(6)	14	10	(10)	14

(i) These provisions significantly relate to costs incurred as part of corporate efficiency programmes.

(ii) These provisions arose on the acquisition of Amstrad which took place during the year ended 30 June 2008.

(iii) These provisions are for those costs incurred in the one-off upgrade of set-top boxes and the programme to offer wireless connectors to selected Sky Movies customers.

(iv) Included in other provisions are amounts provided for legal disputes and warranty liabilities.

(v) Included within non-current other provisions are amounts provided for onerous contracts for property leases and maintenance. The timing of the cash flows are dependent on the terms of the leases, but are expected to continue up to August 2016.

# Notes to the consolidated financial statements

## (continued)

### 20 Borrowings

	2014 £m	2013 £m
Current borrowings		
Obligations under finance leases <sup>(a)</sup>	11	11
Non-current borrowings		
US\$750 million of 5.625% Guaranteed Notes repayable in October 2015 <sup>(a)</sup>	434	496
£400 million of 5.750% Guaranteed Notes repayable in October 2017 <sup>(a)</sup>	400	404
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018 <sup>(a)</sup>	442	498
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018 <sup>(a)</sup>	353	404
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022 <sup>(a)</sup>	466	520
£300 million of 6.000% Guaranteed Notes repayable in May 2027 <sup>(a)</sup>	296	296
US\$350 million of 6.500% Guaranteed Notes repayable in October 2035 <sup>(a)</sup>	201	225
Loan Notes repayable in December 2016	1	-
Obligations under finance leases <sup>(a)</sup>	65	66
	<b>2,658</b>	<b>2,909</b>

#### (i) Guaranteed Notes

At 30 June 2014 the Group had in issue the following Guaranteed 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%
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022	503	503	-	3.226%	N/A
£300 million of 6.000% Guaranteed Notes repayable in May 2027	300	300	-	6.000%	N/A
	<b>1,579</b>	<b>1,353</b>	<b>226</b>		

At 30 June 2014, the Group had in issue the following Guaranteed Notes which were issued by BSkyB Finance UK plc

	Hedged Value* £m	Interest Rate Hedging		Hedged Interest Rates	
		Fixed £m	Floating £m	Fixed	Floating
US\$750 million of 5.625% Guaranteed Notes repayable in October 2015	428	171	257	5.427%	6m LIBOR + 0.698%
£400 million of 5.750% Guaranteed Notes repayable in October 2017	400	350	50	5.750%	6m LIBOR - 0.229%
US\$350 million of 6.500% Guaranteed Notes repayable in October 2035	200	200	-	5.826%	N/A
	<b>1,028</b>	<b>721</b>	<b>307</b>		

At 30 June 2013 the Group had in issue the following Guaranteed 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%
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022	503	503	-	3.226%	N/A
£300 million of 6.000% Guaranteed Notes repayable in May 2027	300	300	-	6.000%	N/A
	<b>1,579</b>	<b>1,353</b>	<b>226</b>		



At 30 June 2013, the Group had in issue the following Guaranteed Notes which were issued by BSKyB Finance UK plc.

	Interest Rate Hedging		Hedged Interest Rates	
	Hedged Value* £m	Fixed £m	Floating £m	Fixed Floating
US\$750 million of 5.625% Guaranteed Notes repayable in October 2015	428	171	257	5.427% 6m LIBOR + 0.698%
£400 million of 5.750% Guaranteed Notes repayable in October 2017	400	350	50	5.750% 6m LIBOR - 0.229%
US\$350 million of 6.500% Guaranteed Notes repayable in October 2035	200	200	-	5.826% N/A
	1,028	721	307	

\* Note: 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 £2.5 billion in the major global bond markets. The £300 million of 6.000% Guaranteed Notes maturing in May 2027 have been issued under the "predecessor EMTN" Programme.

#### (ii) Finance leases

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

	2014 £m	2013 £m
Within one year	11	11
Between one and two years	12	11
Between two and three years	9	11
Between three and four years	9	8
Between four and five years	9	8
After five years	136	144
	186	193
Future finance charges on finance lease liabilities	(110)	(116)
Present value of finance lease liabilities	76	77

The main obligations under finance leases are in relation to:

- finance arrangements in connection with the broadband network infrastructure. During the year, repayments of £7 million (2013: £7 million) were made against the lease. A proportion of these payments have been allocated against the capital outstanding. The lease bears interest at a rate of 11.1% and expires in November 2039.
- finance arrangements in connection with the contact centre in Dunfermline. During the year, repayments of £1 million (2013: £1 million) were made against the lease. A proportion of these payments have been allocated against the capital amount outstanding. The lease bears interest at a rate of 8.5% and expires in September 2020.
- finance arrangements in connection with datacentre equipment. During the year, repayments of £3 million (2013: less than £1 million) were made against the lease. A proportion of these payments have been allocated against the capital amount outstanding. The lease bears interest at a rate of 3.6% and expires in June 2016.

#### (iii) Revolving Credit Facility

The Group has a £743 million RCF with a maturity date of 31 October 2018, syndicated across 10 counterparty banks, each with a minimum credit rating of "Baa1" or equivalent from Standard & Poor's. At 30 June 2014, the RCF was undrawn (2013: 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 3.00:1 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) British Sky Broadcasting Limited, Sky Subscribers Services Limited, BSKyB Finance UK plc and Sky In-Home Service Limited have given joint and several guarantees in relation to the Company's £743 million RCF and the outstanding Guaranteed Notes issued by the Company; and (b) the Company, British Sky Broadcasting Limited, Sky Subscribers Services Limited and Sky In-Home Service Limited have given joint and several guarantees in relation to the outstanding Guaranteed Notes issued by BSKyB Finance UK plc.

# Notes to the consolidated financial statements

## (continued)

### 21 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

	2014				2013			
	Asset		Liability		Asset		Liability	
	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m
Fair value hedges								
Interest rate swaps	77	767	-	-	108	851	-	-
Cash flow hedges								
Cross-currency swaps	72	661	(36)	503	166	1,117	-	47
Forward foreign exchange contracts	33	764	(76)	1,464	37	1,146	(26)	973
Derivatives not in a formal hedge relationship								
Cross-currency swaps	21	353	(59)	390	67	353	(15)	390
Forward foreign exchange contracts	2	217	(4)	262	1	114	(1)	49
Interest rate swaps	5	260	-	-	1	260	-	-
<b>Total</b>	<b>210</b>	<b>3,022</b>	<b>(175)</b>	<b>2,619</b>	<b>380</b>	<b>3,841</b>	<b>(42)</b>	<b>1,459</b>

The maturity of the derivative financial instruments is as follows

	2014		2013	
	Asset £m	Liability £m	Asset £m	Liability £m
In one year or less	15	(39)	15	(13)
Between one and two years	43	(25)	15	(6)
Between two and five years	132	(75)	251	(8)
In more than five years	20	(36)	99	(15)
<b>Total</b>	<b>210</b>	<b>(175)</b>	<b>380</b>	<b>(42)</b>

The fair value of the Group's debt-related derivative portfolio at 30 June 2014 was a £80 million net asset (2013: net asset of £327 million) with net notional principal amounts totalling £1,957 million (2013: £1,957 million). This comprised: net assets of £36 million designated as cash flow hedges (2013: net assets of £166 million); net assets of £77 million designated as fair value hedges (2013: net assets of £108 million); and net liabilities of £33 million not designated in a formal hedge relationship (2013: net assets of £53 million).

At 30 June 2014, the carrying value of financial assets that were, upon initial recognition, designated as financial assets at fair value through profit or loss was nil (2013: nil).

The Group has entered into a collar arrangement to manage its exposure to movements in the value of certain available-for-sale investments over a period of up to 18 months and with a notional value of £22 million. The collar instrument has not been designated for hedge accounting purposes with movements in the fair value of the collar being taken to the income statement.

#### Hedge accounting classification and impact

The Group has designated certain interest rate swaps as fair value hedges of interest rate risk representing 30% (2013: 30%) of the Group's debt 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 has designated certain fixed rate cross-currency swaps as cash flow hedges of 45% (2013: 47%) of the Group's debt 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 20. During the current year, losses of £140 million were removed from the hedging reserve and charged to finance costs in the income statement to offset the currency translation movements in the underlying hedged debt (2013: gains of £40 million).

The Group designates certain forward foreign exchange contracts and the intrinsic element of options (collars) as cash flow hedges of forecast foreign currency sales and purchases. Gains or losses are released from the hedging reserve and recycled to the income statement in the same period as the hedged item is recognised. If forecast transactions are no longer expected to occur, any amounts included in the hedging reserve related to that forecast transaction would be recognised directly in the income statement. During the current year, gains of £7 million were removed from the hedging reserve and credited to operating expense in the income statement (2013: gains of £2 million). Losses of £2 million were removed from the hedging reserve and debited to revenue in the income statement (2013: gains of £8 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. Ineffectiveness of £1 million was recognised in the income statement during the current year (2013: £2 million).

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 2014, there were no instances in which the hedge relationship was not highly effective (2013: no instances).

## Financial instruments

## (a) Carrying value and fair value

The accounting classification of each class of the Group's financial assets and financial liabilities together with their fair values is as follows

	Held to maturity investments £m	Available- for-sale £m	Derivatives deemed held for trading £m	Derivatives in hedging relationships £m	Loans and receivables £m	Other liabilities £m	Total carrying value £m	Total fair value £m
At 30 June 2014								
Quoted bond debt	-	-	-	-	-	(2,592)	(2,592)	(2,896)
Derivative financial instruments	-	-	(35)	70	-	-	35	35
Trade and other payables	-	-	-	-	-	(1,788)	(1,788)	(1,788)
Provisions	-	-	-	-	-	(45)	(45)	(45)
Obligations under finance leases and other borrowings	-	-	-	-	-	(77)	(77)	(77)
Available-for-sale investments	-	533	-	-	-	-	533	533
Trade and other receivables	-	-	-	-	349	-	349	349
Short-term deposits	295	-	-	-	-	-	295	295
Cash and cash equivalents	300	-	-	-	782	-	1,082	1,082
At 30 June 2013								
Quoted bond debt	-	-	-	-	-	(2,843)	(2,843)	(3,185)
Derivative financial instruments	-	-	53	285	-	-	338	338
Trade and other payables	-	-	-	-	-	(1,567)	(1,567)	(1,567)
Provisions	-	-	-	-	-	(74)	(74)	(74)
Obligations under finance leases and other borrowings	-	-	-	-	-	(77)	(77)	(77)
Available-for-sale investments	-	422	-	-	-	-	422	422
Trade and other receivables	-	-	-	-	278	-	278	278
Short-term deposits	595	-	-	-	-	-	595	595
Cash and cash equivalents	65	-	-	-	750	-	815	815

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and which are traded on active liquid markets is determined with reference to quoted market prices
- 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 2014 and 30 June 2013. 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.

# Notes to the consolidated financial statements

(continued)

## 21 Derivatives and other financial instruments (continued)

### (b) Fair value hierarchy

The following table categorises the Group's financial instruments which are held at fair value into one of three levels to reflect the degree to which observable inputs are used in determining their fair values

	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m
<b>At 30 June 2014</b>				
<b>Financial assets</b>				
Available-for-sale financial instruments				
ITV investment	514	514	-	-
Other investments	19	4	-	15
Financial assets at fair value through profit or loss				
Interest rate swaps	82	-	82	-
Cross-currency swaps	93	-	94	-
Forward foreign exchange contracts	35	-	34	-
<b>Total</b>	<b>743</b>	<b>518</b>	<b>210</b>	<b>15</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss				
Cross-currency swaps	(95)	-	(95)	-
Forward foreign exchange contracts	(80)	-	(80)	-
<b>Total</b>	<b>(175)</b>	<b>-</b>	<b>(175)</b>	<b>-</b>
<b>At 30 June 2013</b>				
<b>Financial assets</b>				
Available-for-sale financial instruments				
ITV investment	409	409	-	-
Other investments	13	-	-	13
Financial assets at fair value through profit or loss				
Interest rate swaps	109	-	109	-
Cross-currency swaps	233	-	233	-
Forward foreign exchange contracts	38	-	38	-
<b>Total</b>	<b>802</b>	<b>409</b>	<b>380</b>	<b>13</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss				
Cross-currency swaps	(15)	-	(15)	-
Forward foreign exchange contracts	(27)	-	(27)	-
<b>Total</b>	<b>(42)</b>	<b>-</b>	<b>(42)</b>	<b>-</b>

### Level 1

Fair values measured using quoted prices (unadjusted) in active markets for identical assets or liabilities

### Level 2

Fair values measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. Derivative financial instrument fair values are present values determined from future cash flows discounted at rates derived from market source data

### Level 3

Fair values measured using inputs for the asset or liability that are not based on observable market data. Certain of the Group's available-for-sale financial assets are held at fair value and are categorised as Level 3 in the fair value hierarchy

## 22 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 both UK 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 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 when drawn means that the mix of fixed and floating rate debt fluctuates and is therefore managed to ensure compliance with the Group's hedging policy. At 30 June 2014, 80% of borrowings were held at fixed rates after hedging (2013: 80%).

The Group uses derivatives to convert all of its US dollar-denominated debt and associated interest rate obligations to pounds sterling (see section on foreign exchange risk for further detail). At 30 June 2014, the Group had no net US dollar denominated interest rate exposure on its borrowings.

The Group designates its interest rate swaps as fair value hedges of interest rate 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 2014, this amounted to £1 million (2013: £2 million).

At 30 June 2014 and 30 June 2013, the Group's annual finance costs would be unaffected by any change to the Group's credit rating in either direction.

### Interest rate sensitivity

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 is outstanding for the whole year.

For each one hundred basis point rise or fall in interest rates at 30 June 2014, and if all other variables were held constant:

- The Group's profit for the year ended 30 June 2014 would increase or decrease by £8 million (2013: profit for the year would increase or decrease by £9 million). The year-on-year movement is driven by a decrease in the cash balance held.
- Other equity reserves would decrease or increase by £6 million (2013: decrease or increase by £15 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 US dollar denominated debt and associated interest rate obligations to pounds sterling, at fixed exchange rates. At 30 June 2014, the split of the Group's aggregate borrowings into their core currencies was US dollar 71% and pounds sterling 29% (2013: US dollar 73% and pounds sterling 27%). At 30 June 2014, 100% of the Group's long-term borrowings, after the impact of derivatives, are denominated in pounds sterling.

The Group's revenues and operating expenses are substantially denominated in pounds sterling. A small proportion of operating expenses is denominated in US dollars while a small proportion of revenues is denominated in euros. In the current year, approximately 16% of operating expenses (£104.3 million) was denominated in US dollars (2013: approximately 10% (£61.4 million)) and 5% of revenues (£39.3 million) was denominated in euros (2013: 5% (£39.2 million)).

The US dollar expense relates mainly to the Group's programming contracts with US suppliers, together with US dollar-denominated set-top box costs. The euro revenues primarily relate to subscribers located in Ireland. The Group's exposure to euro-denominated revenue is offset to a certain extent by euro-denominated costs related mainly to certain transponder costs, the net position being a euro surplus (2013: surplus).

The Group hedges currency exposures on US dollar and euro-denominated highly probable cash flows by using forward foreign exchange contracts purchased up to five years ahead of the cash flow.

# Notes to the consolidated financial statements

## (continued)

### 22. Financial risk management (continued)

It is the Group's policy that all anticipated foreign currency exposures are substantially hedged in advance of the year in which they occur

At 30 June 2014 the Group had purchased forward foreign exchange contracts representing up to

- Approximately 95% of US dollar-denominated costs falling due within one year (2013: 90%) and approximately 80% of US dollar-denominated costs falling due within five years (2013: approximately 80%) which are hedged via
  - Outstanding commitments to purchase in aggregate US\$2,358 million (2013: US\$1,926 million) at an average rate of US\$1.60 to £1.00 (2013: US\$1.56 to £1.00)
- Approximately 95% of net euro-denominated revenues falling due within one year (2013: approximately 95%) and approximately 80% of net euro-denominated revenues falling due within four years (2013: approximately 80%) which are hedged via
  - Outstanding commitments to sell, in aggregate, €1,078 million (2013: €1,039 million) at an average rate of €1.18 to £1.00 (2013: €1.19 to £1.00)
  - Outstanding commitments to purchase in aggregate €111 million (2013: €119 million) at an average rate of €1.18 to £1.00 (2013: €1.16 to £1.00)

Two forward foreign exchange contracts fall due beyond five years (2013: none)

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 (2013: £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 analyses details the Group's sensitivity to movements in pounds sterling 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 £15 million (2013: reducing profit by £21 million) of which losses of £16 million relate to non-cash movements in the valuation of derivatives (2013: losses of £23 million). The same strengthening would have an adverse impact on other equity of £288 million (2013: adverse impact of £237 million)

A 25% weakening in pounds sterling against the US dollar would have the effect of increasing profit by £25 million (2013: increasing profit by £34 million) of which gains of £27 million relate to non-cash movements in the valuation of derivatives (2013: gains of £38 million). The same weakening would have a beneficial impact on other equity of £479 million (2013: beneficial impact of £395 million)

A 25% strengthening in pounds sterling against the euro would have the effect of increasing profit by £2 million (2013: decreasing profit by £1 million). None of this amount relates to non-cash movements in the valuation of derivatives. The same strengthening would have a beneficial impact on other equity of £155 million (2013: beneficial impact of £157 million)

A 25% weakening in pounds sterling against the euro would have the effect of decreasing profit by £3 million (2013: increasing profit by £1 million). None of this amount relates to non-cash movements in the valuation of derivatives. The same weakening would have an adverse impact on other equity of £259 million (2013: adverse impact of £262 million)

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates is constantly changing as the Group's portfolio of debt, cash and foreign currency contracts changes. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Group. The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses

#### Hedge accounting

The interest rate and foreign exchange rate risk sections above outline the Group's policies regarding use of derivative products. Further detail on valuations and the impact of hedge accounting during the year are provided in note 21

#### Credit risk

The Group is exposed to counterparty default risk amounting to 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 carried a minimum credit rating of "Baa1" 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 nil (2013: nil)

Credit risk in our residential customer base is mitigated by billing and collecting in advance for digital television subscriptions for over 99% of our residential customer base. The Group's maximum exposure to credit risk on trade receivables is the carrying amounts as disclosed in note 17

**Liquidity risk**

Our principal source of liquidity is cash generated from operations combined with access to a £743 million RCF which expires in October 2018. At 30 June 2014 this facility was undrawn (30 June 2013: 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 2014, 29% (2013: 40%) 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 20, other than trade and other payables shown in note 18 and provisions, shown in note 19.

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 2014</b>				
Non derivative financial liabilities				
Bonds – USD	112	541	1,002	947
Bonds – GBP	41	41	500	444
Obligations under finance leases and other borrowings	11	12	27	139
Trade and other payables	1,686	99	3	-
Provisions	35	8	-	2
Net settled derivatives				
Financial assets	(30)	(24)	(41)	-
Gross settled derivatives				
Outflow	1,356	1,129	1,867	960
Inflow	(1,327)	(1,121)	(1,865)	(955)
<b>At 30 June 2013</b>				
Non derivative financial liabilities				
Bonds – USD	125	125	1,291	1,490
Bonds – GBP	41	41	500	462
Obligations under finance leases and other borrowings	11	11	27	144
Trade and other payables	1,457	107	3	-
Provisions	66	4	1	3
Net settled derivatives				
Financial assets	(32)	(32)	(65)	(6)
Gross settled derivatives				
Outflow	1,020	760	1,687	1,381
Inflow	(1,028)	(775)	(1,876)	(1,417)

**Capital Risk Management**

The Group's objectives when managing capital are to endeavour to ensure that the Group has the ability to access capital markets when necessary and to optimise liquidity and operating flexibility through the arrangement of new debt while seeking to minimise the cost of capital. The Group monitors its liquidity requirements regularly and is satisfied that it has access to sufficient liquidity and operating flexibility to meet its capital requirements.

The Group manages its short and long-term capital structure by seeking to maintain leverage ratios consistent with a long-term investment grade credit rating (BBB- or better from Standard & Poor's and Baa3 or better from Moody's). The Group's current ratings are BBB+ (Standard & Poor's) and Baa1 (Moody's). The leverage ratios assessed by these rating agencies are those of Net Debt, EBITDA and Gross Debt. EBITDA, Net Debt is defined as total borrowings including the cash flows arising under operating leases and transponder prepayments, less cash and cash equivalents, excluding derivatives. Gross Debt does not reduce total borrowings by the inclusion of cash and cash equivalents.

The Group is also required to maintain a Net Debt/EBITDA ratio below 3.00:1 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 2014, the Net Debt/EBITDA ratio as defined by the terms of the RCF was 0.71 (2013: 0.71) and the EBITDA to Net Interest Payable ratio was 13.31 (2013: 13.41).

# Notes to the consolidated financial statements

## (continued)

### 23 Share capital

	2014 £m	2013 £m
<b>Allotted called-up and fully paid shares of 50p</b> 1,562,885,017 (2013: 1,593,905,182)	781	797
	2014 Number of ordinary shares	2013 Number of ordinary shares
<b>Allotted and fully paid during the year</b>		
Beginning of year	1,593,905,182	1,674,454,881
Shares repurchased and subsequently cancelled	(31,020,165)	(80,549,699)
End of year	1,562,885,017	1,593,905,182

The Company has one class of ordinary shares which carry equal voting rights and no contractual right to receive payment. Full details of the Company's share buy-back programme are provided in note 24.

#### 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 ten years under the Schemes and any other employee share scheme adopted by the Company, exceed such number as represents five per cent of the ordinary share capital of the Company in issue immediately prior to that day. In determining this limit no account shall be taken of any newly issued shares where the right to acquire the newly issued shares was released, lapsed, cancelled or otherwise became incapable of exercise. Options and awards which will be satisfied by ESOP shares do not fall within these headroom limits.

The share awards outstanding can be summarised as follows:

	2014 Number of ordinary shares	2013 Number of ordinary shares
Executive Share Option Scheme options <sup>(i)</sup>	147,020	931,247
Sharesave Scheme options <sup>(ii)</sup>	7976,924	7,159,954
Management LTIP awards <sup>(iii)</sup>	16,056,961	24,365,112
LTIP awards <sup>(iv)</sup>	5,575,000	8,844,132
Management Co-Investment LTIP awards <sup>(v)</sup>	2,065,719	1,975,705
Co-Investment LTIP awards <sup>(vi)</sup>	2,235,172	2,068,175
	<b>34,056,796</b>	<b>45,344,325</b>

#### (i) Executive Share Option Scheme options

All Executive Share Option Scheme options outstanding at 30 June 2014 and 30 June 2013 have vested. No options have been granted under the scheme since 2004.

Grants under the Executive Share Option Scheme were made on an annual basis to selected employees, with the exercise price of options being equal to the Company's share price on the date of grant. For those options with performance conditions, growth in EPS had to exceed growth in the Retail Prices Index plus 3% per annum in order for awards to vest. Options vested on an accelerated basis over a period of up to four years from the date of grant. The contractual life of all Executive Share Option Scheme options is ten years.

#### (ii) Sharesave Scheme options

All Sharesave Scheme options outstanding at 30 June 2014 and 30 June 2013 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. 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.

#### (iii) Management LTIP awards

All Management LTIP awards outstanding at 30 June 2014 and 30 June 2013 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.

#### (iv) LTIP awards

All LTIP awards outstanding at 30 June 2014 and 30 June 2013 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 and are satisfied using market-purchased shares. The awards vest in full or in part dependent on the satisfaction of specified performance targets. For awards made in 2008 and 2009 (i.e. awards that vested in 2011) 30% of the award vested dependent on TSR performance over a three year performance period relative to the constituents of the FTSE 100 at the time of grant, and the remaining 70% vested dependent on performance against operational targets. The TSR performance targets were not applicable to awards made between July 2010 and March 2012 but have been re-introduced for awards granted from July 2012 onwards.

**(v) Management Co-Investment LTIP awards**

All Management Co-Investment LTIP awards outstanding at 30 June 2014 and 30 June 2013 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.

**(vi) Co-Investment LTIP awards**

All Co-Investment LTIP awards outstanding at 30 June 2014 and 30 June 2013 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 15 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.

	Executive Scheme		Sharesave Scheme		Senior management Schemes		Total
	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Number	Weighted average exercise price £	Weighted average exercise price £
Outstanding at 1 July 2012	2,630,435	5.84	7,238,348	4.94	25,303,300	0.00	35,172,083
Granted during the year	-	-	2,059,022	6.08	15,012,591	0.00	17,071,613
Exercised during the year	(1,599,820)	5.88	(1,341,667)	4.40	(1,824,435)	0.00	(4,765,922)
Forfeited during the year	(64,334)	6.04	(795,749)	5.19	(1,238,332)	0.00	(2,098,415)
Expired during the year	(35,034)	5.30	-	-	-	-	(35,034)
Outstanding at 30 June 2013	931,247	5.79	7,159,954	5.34	37,253,124	0.00	45,344,325
Granted during the year	-	-	3,022,211	6.82	10,068,805	0.00	13,091,016
Exercised during the year	(771,806)	5.95	(1,217,391)	4.96	(20,763,738)	0.00	(22,752,935)
Forfeited during the year	(10,516)	5.03	(961,166)	5.89	(625,339)	0.00	(1,597,021)
Expired during the year	(1,905)	6.62	(26,684)	4.47	-	-	(28,589)
Outstanding at 30 June 2014	147,020	5.03	7,976,924	5.90	25,932,852	0.00	34,056,796

The weighted average market price of the Group's shares at the date of exercise for share options exercised during the year was £8.42 (2013: £7.83). For those exercised under the Executive Scheme it was £8.48 (2013: £7.79); for those exercised under the Sharesave Scheme it was £8.82 (2013: £8.19); and for those exercised under the Senior Management Schemes it was £8.40 (2013: £7.60).

The middle-market closing price of the Company's shares at 27 June 2014 was £8.93 (28 June 2013: £7.92).

The following table summarises information about share awards outstanding at 30 June 2014.

	Executive Scheme		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)	Weighted average remaining contractual life (Years)
Range of exercise prices	Number	Years	Number	Years	Number	Years	Years
£0.00 - £1.00	-	-	-	-	25,932,852	6.0	25,932,852
£3.00 - £4.00	-	-	28,381	0.1	-	-	28,381
£4.00 - £5.00	-	-	339,644	1.1	-	-	339,644
£5.00 - £6.00	147,020	0.1	3,239,353	2.0	-	-	3,386,373
£6.00 - £7.00	-	-	4,369,546	3.1	-	-	4,369,546
	147,020	0.1	7,976,924	2.5	25,932,852	6.0	34,056,796

# Notes to the consolidated financial statements

## (continued)

### 23 Share capital (continued)

The following table summarises information about share awards outstanding at 30 June 2013

Range of exercise prices	Executive Scheme		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	Number	Weighted average remaining contractual life Years
£0.00 – £1.00	-	-	-	-	37253124	5.9	37253124	5.9
£3.00 – £4.00	-	-	410643	11	-	-	410643	11
£4.00 – £5.00	-	-	440134	17	-	-	440134	17
£5.00 – £6.00	485586	11	4387409	2.6	-	-	4872995	2.5
£6.00 – £7.00	444163	0.2	1,921,768	3.5	-	-	2,365,931	2.9
£7.00 – £8.00	1,498	0.7	-	-	-	-	1,498	0.7
	931,247	0.7	7,159,954	2.7	37,253,124	5.9	45,344,325	5.3

The range of exercise prices of the awards outstanding at 30 June 2014 was between nil and £6.82 (2013 nil and £7.16). For those awards outstanding under the Executive Scheme it was between £5.03 and £5.39 (2013 £5.03 and £7.16) for those outstanding under the Sharesave Scheme it was between £3.72 and £6.82 (2013 £3.72 and £6.08) and for all awards outstanding under the Senior Management Schemes the exercise price was nil (2013 nil).

The following table summarises additional information about the awards exercisable at 30 June 2014 and 30 June 2013

	2014		2013	
	Options exercisable at 30 June	Average remaining contractual life of exercisable options	Options exercisable at 30 June	Average remaining contractual life of exercisable options
Executive Scheme	147,020	0.1	931,247	0.7
Sharesave Scheme	78,668	0.1	97,457	0.1
Senior Management Schemes	872,229	3.5	663,972	3.7
	1,097,917	2.8	1,692,676	1.8

#### 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 £5.53 (2013 £5.16). 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 £1.89 (2013 £1.51). This was calculated using the Black-Scholes share option pricing model.

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

	2014	2013
Share price	£8.70	£7.51
Exercise price	£6.82	£6.08
Expected volatility	22%	24.0%
Expected life	4.0 years	4.0 years
Expected dividends	3.3%	3.4%
Risk-free interest rate	1.2%	0.4%

**(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 £6.62 (2013: £5.66). 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:

	2014	2013
Share price	£8.28	£7.16
Exercise price	£0.00	£0.00
Expected volatility	19.1%	6.3%
Expected life	2.1 years	3.0 years
Expected dividends	3.3%	3.6%
Risk-free interest rate	0.4%	0.0%

**24 Shareholders' equity**

	2014 £m	2013 £m
Share capital	781	797
Share premium	1,437	1,437
ESOP reserve	(145)	(147)
Hedging reserve	(20)	11
Available-for-sale reserve	455	351
Other reserves	455	439
Retained earnings	(1,891)	(1,876)
	<b>1,072</b>	<b>1,012</b>

**Purchase of own equity shares for cancellation**

On 1 November 2012, at the Company's AGM, the Company was granted the authority to return £500 million of capital to shareholders via a share buy-back programme (the "November 2012 Authority"). This authority was subject to an agreement between the Company and Twenty-First Century Fox, Inc. (formerly known as News Corporation) (and others) dated 28 July 2012 whereby following any market purchases of shares by the Company, Twenty-First Century Fox, Inc. would sell to the Company sufficient shares to maintain its percentage shareholding at the same level as applied prior to those market purchases. The price payable to Twenty-First Century Fox, Inc. would be the price payable by the Company in respect of the relevant market purchases (the "2012 Share Buy-back Agreement").

At the Company's AGM on 22 November 2013, the Company was granted the authority to return a further £500 million of capital to shareholders via a share buy-back programme (the "November 2013 Authority"). This authority was subject to an agreement between the Company and Twenty-First Century Fox, Inc. (and others) dated 25 July 2013 on substantially the same terms as the 2012 Share Buy-back Agreement.

During the year, the Company purchased and subsequently cancelled 31,020,165 ordinary shares at an average price of £8.53 per share with a nominal value of £16 million, for a consideration of £266 million. Consideration included stamp duty and commission of £1 million. This represents 2% of called-up share capital at the beginning of the period. Of these purchases, the Company purchased and subsequently cancelled 12,140,586 ordinary shares from Twenty-First Century Fox, Inc. at an average price of £8.53 per share with a nominal value of £6 million, for a consideration of £104 million. Consideration included stamp duty of £1 million.

During the prior year, the Company purchased and subsequently cancelled 80,549,699 ordinary shares at an average price of £7.75 per share with a nominal value of £40 million for a consideration of £627 million. Consideration included stamp duty and commission of £3 million. This represents 5% of called-up share capital at the beginning of the period. Of these purchases, the Company purchased and subsequently cancelled 31,525,314 ordinary shares from Twenty-First Century Fox, Inc. at an average price of £7.75 per share with a nominal value of £16 million for a consideration of £245 million. Consideration included stamp duty of £1 million.

# Notes to the consolidated financial statements

## (continued)

### 24 Shareholders' equity (continued)

The following table provides information about purchases of equity shares by the company including purchases by the Group's ESOP during the fiscal year

	Total number of shares purchased <sup>(i)</sup>	Average price paid per share £	Total capital returned under the November 2012 Authority £m <sup>(ii)</sup>	Total capital returned under the November 2013 Authority £m <sup>(ii)</sup>	Capital authorised to be returned under the November 2012 Authority £m <sup>(iii)</sup>	Capital authorised to be returned under the November 2013 Authority £m <sup>(ii)</sup>
July	-	-	-	-	61	-
August	20 824 829	8.38	17	-	44	-
September	815 530	8.54	-	-	44	-
October	-	-	-	-	44	-
November	5 464 285	8.31	33	12	-	488
December	6,458 989	8.03	-	52	-	436
January	196 152	8.25	-	2	-	434
February	4 250 710	8.80	-	37	-	397
March	1 694 462	9.17	-	16	-	381
April	3 560 001	8.93	-	32	-	349
May	5 482 357	8.72	-	48	-	301
June	1 807 361	8.71	-	16	-	285
<b>Total for the year ended 30 June 2014</b>	<b>50 554 676</b>	<b>8.48</b>	<b>50</b>	<b>215</b>	<b>-</b>	<b>285</b>

(i) All share purchases are included in the month of settlement

(ii) The November 2012 Authority expired on 22 November 2013. Accordingly no more repurchases can take place under this authority

#### Share premium and special reserve

On 10 December 2003 the High Court approved a reduction in the Company's share premium account of £1120 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 £1106 million. As a condition of the reduction the reduction in the share premium account of £1120 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 2012	16 293 345	£6.85	112
Share options exercised during the year	(4 765 922)	£7.14	(34)
Shares purchased by the ESOP during the year	9 000 000	£7.69	69
<b>At 30 June 2013</b>	<b>20 527 423</b>	<b>£7.15</b>	<b>147</b>
Share options exercised during the year	(22 752 935)	£7.27	(166)
Shares purchased by the ESOP during the year	19 534 511	£8.40	164
<b>At 30 June 2014</b>	<b>17,308 999</b>	<b>£8.40</b>	<b>145</b>

#### Hedging reserve

Changes in the fair values of derivatives that are designated as cash flow hedges are initially recognised in the hedging reserve and subsequently recognised in the income statement when the related hedged items are recognised in the income statement. In addition deferred taxation relating to these derivatives is also initially recognised in the hedging reserve prior to transfer to the income statement.

#### Available-for-sale reserve

Available-for-sale investments are carried at fair value where this can be reliably measured with movements in the fair value recognised directly in the available-for-sale reserve. At 30 June 2014 the Group's available-for-sale reserve was £455 million (2013: £351 million).

## Other reserves

The Group's other reserves include a capital redemption reserve a merger reserve a foreign currency translation reserve and a special reserve. The capital redemption reserve was £190 million as at 30 June 2014 (2013: £174 million). The merger reserve was £222 million as at 30 June 2014 (2013: £222 million). The special reserve was £14 million as at 30 June 2014 (2013: £14 million). The foreign currency translation reserve was £29 million as at 30 June 2014 (2013: £29 million).

## Merger reserve

The merger reserve was created in accordance with the merger relief provisions under section 131 of the Companies Act 1985 (as amended) and section 612 of the Companies Act 2006 relating to the accounting for business combinations involving the issue of shares at a premium. Merger relief provided relief from the requirement to create a share premium account in a parent company's balance sheet. In preparing consolidated financial statements, the amount by which the fair value of the shares issued exceeded their nominal value was recorded within a merger reserve on consolidation rather than in a share premium account. This merger reserve was retained upon transition to IFRS as allowed under UK law.

The merger reserve which is included in other reserves was created as a result of the purchase by the Group of interests in two entities. SIG was purchased on 12 July 2000 where consideration was paid by the issue of equity shares in the Company. BiB was purchased between 28 June 2001 and 11 November 2002, where consideration was paid by the issue of equity shares in the Company. At 30 June 2014, the Group's merger reserve was £222 million (2013: £222 million).

## 25 Notes to the consolidated cash flow statement

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

	2014 £m	2013 £m
Profit before tax	1,082	1,257
Depreciation and impairment of property plant and equipment	208	176
Amortisation and impairment of intangible assets	228	202
Share-based payment expense	60	80
Net finance costs	114	80
Share of results of joint ventures and associates	(35)	(46)
	1,657	1,749
(Increase) decrease in trade and other receivables	(28)	35
Increase in inventories	-	(93)
Increase in trade and other payables	183	136
(Decrease) increase in provisions	(47)	52
Increase (decrease) in derivative financial instruments	4	(2)
Cash generated from operations	1,769	1,877

## 26 Contracted commitments, contingencies and guarantees

### a) Future minimum expenditure contracted for but not recognised in the financial statements

	Year ending 30 June 2015 £m	Year ending 30 June 2016 £m	Year ending 30 June 2017 £m	Year ending 30 June 2018 £m	Year ending 30 June 2019 £m	After 5 years £m	Total at 30 June 2014 £m	Total at 30 June 2013 £m
Television programme rights	1,482	1,374	569	410	197	369	4,401	4,763
Set-top boxes and related equipment	180	-	-	-	-	-	180	202
Third party payments <sup>(i)</sup>	65	58	28	4	-	-	155	189
Transponder capacity <sup>(ii)</sup>	78	75	71	64	64	167	519	634
Property plant and equipment	36	-	-	-	-	-	36	17
Intangible assets <sup>(iii)</sup>	31	26	24	18	5	-	104	112
Smartcards <sup>(iv)</sup>	41	42	42	43	10	-	178	232
Other	236	121	99	53	5	7	521	574
	2,149	1,696	833	592	281	543	6,094	6,723

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

- The third party payment commitments are in respect of distribution agreements for the television channels owned and broadcast by third parties, retained by the Group to retail and commercial subscribers ("Sky Distributed Channels").
- Transponder capacity commitments are in respect of the SES satellites that the Group uses for digital transmissions to both retail subscribers and cable operators.
- Commitments in relation to the provision of smartcards. Smartcards under development are included within intangible assets. The amounts included above are the expected ongoing smartcard costs based on forecast customer levels.

# Notes to the consolidated financial statements

## (continued)

### 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 £17 million (2013: £25 million).

The Group has guarantees in place relating to the Group's borrowings, see note 20.

#### Ofcom determination

Included within direct networks costs for the year ended 30 June 2013 is a credit of £32 million in relation to a credit note received from BT following an Ofcom determination in 2012 which required BT to repay monies to Sky for overcharged-for Ethernet services (backhaul) between 2006/07 and 2009/10 (2013: £32 million). Sky BT and others have appealed Ofcom's determination in the CAT.

### 27 Operating lease commitments

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

	2014 £m	2013 £m
Within one year	47	49
Between one and two years	41	42
Between two and three years	41	35
Between three and four years	21	37
Between four and five years	14	18
After five years	33	45
	197	226

The majority of operating leases relate to property. The rents payable under these leases are subject to renegotiation at the various intervals specified in the leases.

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

	2014 £m	2013 £m
Within one year	1	2
Between one and two years	-	2
Between two and three years	-	2
Between three and four years	-	2
Between four and five years	-	1
After five years	-	5
	1	14

Sub-lease rentals primarily relate to property leases.

### 28 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 Twenty First 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:

	2014 £m	2013 £m
Supply of goods or services by the Group	82	89
Purchases of goods or services by the Group	(127)	(156)
Amounts owed to the Group	5	7
Amounts owed by the Group	(134)	(102)

At 30 June 2014 the Group had expenditure commitments of £99 million in relation to transactions with related parties (2013: £97 million) all of which related to minimum television programming rights commitments.

#### Goods and services supplied

During the year the Group supplied set-top boxes, programming, airtime, transmission, marketing, consultancy services, customer relationship management services and a licence to use the Sky brand to Twenty-First Century Fox Inc. companies.

## 28 Transactions with related parties and major shareholders (continued)

### Purchases of goods and services and certain other relationships

During the year the Group purchased programming and technical and marketing services from Twenty-First Century Fox, Inc. companies

There is an agreement between Twenty-First Century Fox, Inc. and the Group pursuant to which it was agreed that, for so long as Twenty-First Century Fox, Inc. directly or indirectly holds an interest of 30% or more in the Group Twenty-First Century Fox, Inc. will not engage in the business of satellite broadcasting in the UK or Ireland

### Share buy-back programme

During the year the Company purchased and subsequently cancelled 12,140,586 ordinary shares held by Twenty-First Century Fox, Inc. as part of its share buy-back programme. For further details, see note 24

### 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

	2014 £m	2013 £m
Supply of services by the Group	19	22
Purchases of goods or services by the Group	(66)	(66)
Amounts owed by joint ventures and associates to the Group	8	9
Amounts owed to joint ventures and associates by the Group	(11)	(9)

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 £1 million (2013: £1 million) relating to loan funding

These loans bear interest at a rate of one month LIBOR plus 1%. The maximum amount of loan funding outstanding in total from joint ventures and associates during the year was £1 million (2013: £7 million)

The Group took out a number of forward exchange contracts with counterparty banks during the year on behalf of the joint venture AETN UK. On the same dates as these forward contracts were entered into, the Group entered into equal and opposite contracts with AETN UK in respect of these forward contracts

Consequently the Group was not exposed to any of the net gains or losses on these forward contracts. The face value of forward exchange contracts with AETN UK that had not matured as at 30 June 2014 was £4 million (2013: £8 million)

During the year US\$4 million (2013: US\$4 million) was paid to the joint venture upon maturity of forward exchange contracts and less than US\$1 million (2013: US\$nil) was received from the joint venture upon maturity of forward exchange contracts

During the year £3 million (2013: £2 million) was received from the joint venture upon maturity of forward exchange contracts and £5 million (2013: £3 million) was paid to the joint venture upon maturity of forward exchange contracts

During the year £5 million (2013: £4 million) was received from the joint venture upon maturity of forward exchange contracts and less than £1 million (2013: £nil) was paid to the joint venture upon maturity of forward exchange contracts

At 30 June 2014 the Group had minimum expenditure commitments of £3 million (2013: £4 million) with its joint ventures and associates

### c) Other transactions with related parties

A close family member of one Director of the Company runs Freud Communications Limited ("Freud") which has provided external support to the press and publicity activities of the Group. During the year the Group incurred expenditure amounting to £1 million (2013: £1 million) with Freud. At 30 June 2014 there was £1 million (2013: less than £1 million) due to Freud

In addition to the foregoing, 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 2014 there were 15 (2013: 14) members of key management all of whom were Directors of the Company. Key management compensation is disclosed in note 6b

# Notes to the consolidated financial statements

## (continued)

### 29 Events after the reporting period

On 17 July 2014, the Group sold a shareholding of approximately 6.4% in ITV plc, consisting of 259,820,065 ITV shares for an aggregate consideration of approximately £481 million.

The Company announced on 25 July 2014 that it has conditionally entered into share purchase agreements (the "Acquisition Agreements") with Twenty-First Century Fox Inc. (and its relevant subsidiaries) to acquire its 100% stake in Sky Italia Srl and its 57.4% stake in Sky Deutschland AG. The Company further announced its intention to make a voluntary cash offer (the "Offer") to the minority shareholders of Sky Deutschland AG. The Acquisition Agreements and the Offer (together the "Transactions") are conditional on, amongst other things, their approval by the Company's independent shareholders and regulatory clearances.

The total consideration for the acquisition of Sky Italia is £2.45 billion with approximately £2.07 billion to be paid in cash and the balance to be satisfied through the transfer of the Group's 21% stake in National Geographic Channel to Twenty-First Century Fox Inc. ("21CF"). The acquisition of 21CF's shareholding in Sky Deutschland AG is for a consideration of £2.9 billion in cash, valuing Sky Deutschland at €6.75 a share. Subject to the number of Sky Deutschland AG minority shareholders that accept the Offer, the total consideration for the transaction will range from £2.9 billion to £5 billion.

The total consideration payable for the Transactions will be funded in part by the proceeds of a placing of 156,132,213 new Ordinary Shares representing approximately 9.99% of the existing issued share capital of the Company to both existing and new institutional investors, which was also announced on 25 July 2014. 21CF, which has a 39.14% shareholding in the Company, has undertaken to subscribe for 61,106,496 of the shares being placed so as to maintain its existing percentage shareholding in the Company following completion of the placing. The remaining consideration will come from a combination of new debt facilities (as described below) and cash resources.

On 25 July 2014, the Company entered into a facilities agreement (the "Facilities Agreement") documenting a committed bridge loan facility of €4.00 billion ("Term Loan A"), a term loan facility of £450 million and £2.5 billion ("Term Loan B") and a revolving loan facility of £1 billion (the "RCF"). The Facilities Agreement is unsecured but is guaranteed by various of the Company's subsidiaries.

Term Loan A matures 12 months after the date of the Facilities Agreement, subject to an option at the Company's discretion to extend for a further one-year period. Term Loan B matures 36 months after the date of the Facilities Agreement with a one-year extension period available at the discretion of the lenders. The RCF matures on 30 November 2019, subject to two one-year extension options at the discretion of the lenders.

The Group is subject to two financial covenants under the Facilities Agreement: a maximum leverage ratio and a minimum interest cover ratio, which are tested at the end of each six-monthly period beginning on 30 June 2015. The key financial covenants are the ratio of Net Debt to EBITDA (each as defined in the Facilities Agreement) and EBITDA to Consolidated Interest Charges (as defined in the Facilities Agreement). Net Debt to EBITDA must be no more than 4.00:1 until 30 June 2016 and thereafter no more than 3.50:1. EBITDA to Consolidated Interest Charges must be at least 3.50:1.

Term Loan A and Term Loan B are available to be used to fund, among other things, the consideration payable under the Acquisition Agreements and the consideration payable to the minority shareholders of Sky Deutschland AG pursuant to the Offer.



### 30 Group investments

The significant investments of the Company which principally affect the consolidated results and total assets of the Group are as follows

Name	Country of incorporation	Description and proportion of shares held (%)	Principal activity
<b>Subsidiaries</b>			
<b>Direct holdings of the Company</b>			
British Sky Broadcasting Limited	United Kingdom	10 002,002 ordinary shares of £1 each (100%)	Operation of pay television broadcasting and home communications services in the UK and Ireland
BSkyB Finance UK plc	United Kingdom	50 000 ordinary shares of £1 each (100%)	Finance company
<b>Subsidiaries</b>			
<b>Indirect holdings of the Company</b>			
Sky Subscribers Services Limited	United Kingdom	3 ordinary shares of £1 each (100%)	Provision of ancillary functions supporting the pay television broadcasting, residential broadband and telephone operations of the Group
Sky Holdings Limited	United Kingdom	600 ordinary shares of £1 each (100%)	Holding company
Sky In Home Service Limited	United Kingdom	1 576 000 ordinary shares of £1 each (100%)	Supply, installation and maintenance of satellite television receiving equipment, broadband and wireless connector equipment
BSkyB Telecommunications Services Limited	United Kingdom	5 821,764 ordinary shares of £1 each (100%)	Management of the network assets in the UK
Sky Ventures Limited	United Kingdom	912 ordinary shares of £1 each (100%)	Holding company
The Cloud Networks Limited	United Kingdom	30 583 988 shares of £0 00025 per share (100%)	Provision of telecommunications
Hestview Limited	United Kingdom	108 ordinary shares of £1 each (100%)	Provision of sports betting activities
Bonne Terre Limited	Alderney	2,504 ordinary shares of £1 each (100%)	Provision of gaming activities
Sky Home Communications Limited	United Kingdom	9 528 124 ordinary shares of £1 each (100%)	Provision of residential broadband and telephone operations
<b>Joint ventures and associates</b>			
Nickelodeon UK Limited <sup>(i)</sup>	United Kingdom	104 B Shares of £0 01 each (40%)	Transmission of children's television channels
AETN UK	United Kingdom	50 000 A Shares of £1 each (50%)	Transmission of history crime and investigation television programming and the Lifetime Channel
Paramount UK Partnership <sup>(ii)(iii)</sup>	United Kingdom	Partnership interest (25%)	Transmission of general entertainment comedy channels
Australian News Channel Pty Limited	Australia	1 ordinary share of AUD\$1 (33 33%)	Transmission of news and business channels
NGC Network International LLC	United States of America	Partnership interest (21%)	Transmission of natural history and adventure channels
NGC Network Latin America LLC	United States of America	Partnership interest (21%)	Transmission of natural history and adventure channels
Attheraces Holdings Limited <sup>(iv)</sup>	United Kingdom	1 502 ordinary shares of £1 each (45 9%) 20 Recoupment Shares of £0 55 each	Transmission of a horse racing channel and related online activities
Sky News Arabia FZ-LLC	United Arab Emirates	26 666 666 shares of US\$1 each (50%)	Transmission of Arabic News in the MENA region (Middle East and North Africa)
<b>Investments</b>			
ITV plc <sup>(v)</sup>	United Kingdom	291 684 730 ordinary shares of £0 10 each (7 23%)	Transmission of free-to-air channels

(i) These entities have an accounting reference date of 31 December

(ii) These entities have an accounting reference date of 30 September

(iii) The registered address of Paramount UK Partnership is 180 Oxford Street, London W1D 1DS. 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

(iv) On 17 July 2014 the Group sold a shareholding of approximately 6 4% in ITV consisting of 259 820 065 ITV shares. For further details refer to note 29

(v) This note sets out an abbreviated list of the subsidiaries of the Company. A full list will be filed with Companies House in accordance with section 410 of the Companies Act 2006

The following companies are exempt from the requirements relating to the audit of individual accounts for the year/period ended 30 June 2014 by virtue of section 479A of the Companies Act 2006: BSkyB Finance Limited (02906994) Kidsprog Limited (02767224) Parthenon Media Group Limited (06944197) SATV Publishing Limited (01085975) Sky IP International Limited (07245844) and Sky Television Limited (01518707)

# Notes to the consolidated financial statements

(continued)

## 31 British Sky Broadcasting Group plc company only financial statements

### Company Income Statement for the year ended 30 June 2014

	Notes	2014 £m	2013 £m
Revenue		225	214
Operating expense		(44)	(40)
<b>Operating profit</b>		<b>181</b>	<b>174</b>
Dividend income from subsidiaries	O	622	947
Investment income	B	64	58
Finance costs	B	(81)	(61)
<b>Profit before tax</b>	<b>C</b>	<b>786</b>	<b>1118</b>
Taxation	D	(36)	(30)
<b>Profit for the year attributable to equity shareholders</b>		<b>750</b>	<b>1088</b>

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

### Company Statement of Comprehensive Income for the year ended 30 June 2014

	2014 £m	2013 £m
<b>Profit for the year attributable to equity shareholders</b>	<b>750</b>	<b>1088</b>
Other comprehensive income		
Amounts recognised directly in equity that may subsequently be recycled to the income statement		
(Loss) gain on cash flow hedges	(79)	3
Tax on cash flow hedges	18	(1)
	(61)	2
Amounts reclassified and reported in the income statement		
Gain (loss) on cash flow hedges	97	(28)
Tax on cash flow hedges	(22)	7
	75	(21)
<b>Other comprehensive income (loss) for the year (net of tax)</b>	<b>14</b>	<b>(19)</b>
<b>Total comprehensive income for the year attributable to equity shareholders</b>	<b>764</b>	<b>1,069</b>

All results relate to continuing operations

## Company Balance Sheet

as at 30 June 2014

	Notes	2014 £m	2013 £m
<b>Non-current assets</b>			
Investments in subsidiaries	E	8146	8143
Other receivables	G	2	3
Derivative financial assets	J	175	341
		<b>8323</b>	<b>8487</b>
<b>Current assets</b>			
Other receivables	G	3,008	2967
Cash and cash equivalents		1	-
		<b>3009</b>	<b>2967</b>
<b>Total assets</b>		<b>11332</b>	<b>11454</b>
<b>Current liabilities</b>			
Other payables	I	3613	3434
<b>Non-current liabilities</b>			
Borrowings	H	1,557	1,718
Derivative financial liabilities	J	156	176
Deferred tax liabilities	F	4	1
		<b>1717</b>	<b>1895</b>
<b>Total liabilities</b>		<b>5330</b>	<b>5329</b>
Share capital	L	781	797
Share premium	L	1437	1437
Reserves		3784	3,891
<b>Total equity attributable to equity shareholders</b>		<b>6,002</b>	<b>6125</b>
<b>Total liabilities and shareholders' equity</b>		<b>11,332</b>	<b>11454</b>

The accompanying notes are an integral part of this balance sheet

These financial statements of British Sky Broadcasting Group plc registered number 02247735 have been approved by the Board of Directors on 25 July 2014 and were signed on its behalf by:

Jeremy Darroch  
Chief Executive Officer



Andrew Griffith  
Chief Financial Officer



## Company Cash Flow Statement

for the year ended 30 June 2014

	Notes	2014 £m	2013 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	M	-	-
<b>Net cash from operating activities</b>		<b>-</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
Proceeds from the exercise of share options		11	15
Loan to subsidiaries		(10)	(16)
<b>Net cash from (used in) financing activities</b>		<b>1</b>	<b>(1)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>1</b>	<b>(1)</b>
Cash and cash equivalents at the beginning of the year		-	1
<b>Cash and cash equivalents at the end of the year</b>		<b>1</b>	<b>-</b>

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

# Notes to the consolidated financial statements

## (continued)

### 31 British Sky Broadcasting Group plc company only financial statements (continued)

#### Company Statement of Changes in Equity for the year ended 30 June 2014

	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 2012</b>	<b>837</b>	<b>1,437</b>	<b>14</b>	<b>134</b>	<b>844</b>	<b>(112)</b>	<b>6</b>	<b>2,944</b>	<b>6,104</b>
Profit for the year	-	-	-	-	-	-	-	1,088	1,088
Recognition and transfer of cash flow hedges	-	-	-	-	-	-	(25)	-	(25)
Tax on items taken directly to equity	-	-	-	-	-	-	6	-	6
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(19)</b>	<b>1,088</b>	<b>1,069</b>
Share-based payment	-	-	-	-	-	(35)	-	61	26
Share buy-back programme (see note 24)									
- Purchase of own shares for cancellation	(40)	-	-	40	-	-	-	(617)	(617)
- Financial liability for close period purchases	-	-	-	-	-	-	-	(16)	(16)
Dividends	-	-	-	-	-	-	-	(441)	(441)
<b>At 30 June 2013</b>	<b>797</b>	<b>1,437</b>	<b>14</b>	<b>174</b>	<b>844</b>	<b>(147)</b>	<b>(13)</b>	<b>3,019</b>	<b>6,125</b>
Profit for the year	-	-	-	-	-	-	-	750	750
Recognition and transfer of cash flow hedges	-	-	-	-	-	-	18	-	18
Tax on items taken directly to equity	-	-	-	-	-	-	(4)	-	(4)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14</b>	<b>750</b>	<b>764</b>
Share-based payment	-	-	-	-	-	2	-	(95)	(93)
Share buy-back programme (see note 24)									
- Purchase of own shares for cancellation	(16)	-	-	16	-	-	-	(250)	(250)
- Financial liability for close period purchases	-	-	-	-	-	-	-	(59)	(59)
Dividends	-	-	-	-	-	-	-	(485)	(485)
<b>At 30 June 2014</b>	<b>781</b>	<b>1,437</b>	<b>14</b>	<b>190</b>	<b>844</b>	<b>(145)</b>	<b>1</b>	<b>2,880</b>	<b>6,002</b>

For a description of the nature and purpose of each equity reserve see note L

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

#### A Accounting policies

British Sky Broadcasting Group plc (the "Company") is a public limited company incorporated in the United Kingdom and registered in England and Wales

##### i) Basis of preparation

The Company financial statements have been prepared in accordance with IFRS consistent with the accounting policies set out in note 1 of the Group's consolidated financial statements

##### ii) Revenue

Revenue which excludes value added tax represents the gross inflow of economic benefit from the Company's operating activities. Revenue is measured at the fair value of the consideration received or receivable. The Company's main source of revenue is from licensing the Company's brand name asset to subsidiaries. This revenue is recognised on an accruals basis under the terms of relevant licensing agreements.

##### iii) Investment in subsidiaries

An investment in a subsidiary is recognised at cost less any provision for impairment. As permitted by section 133 of the Companies Act 2006 where the relief afforded under section 131 of the Companies Act 2006 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings.

**B Investment income and finance costs**

	2014 £m	2013 £m
Investment income		
Investment income from subsidiaries	64	58
Finance costs		
- Interest payable and similar charges		
Revolving Credit Facility ("RCF")	(2)	(2)
Guaranteed Notes (see note H)	(80)	(76)
	(82)	(78)
- Other finance income (expense)		
Remeasurement of borrowings and borrowings-related derivative financial instruments (not qualifying for hedge accounting)	-	16
Loss arising on derivatives in a designated fair value hedge accounting relationship	(14)	(22)
Gain arising on adjustment for hedged item in a designated fair value hedge accounting relationship	15	23
	1	17
	(81)	(61)

**C Profit before taxation****Employee benefits**

The Company had nil employees (2013: nil) during the year

**Key management compensation**

Amounts paid to the Directors of the Company are disclosed in the Report on Directors' remuneration on pages 59 to 76

**D Taxation****i) Taxation recognised in the income statement**

	2014 £m	2013 £m
Current tax expense		
Current year	37	37
Adjustment in respect of prior years	-	(11)
<b>Total current tax charge</b>	<b>37</b>	<b>26</b>
Deferred tax expense		
Origination and reversal of temporary differences	(1)	4
<b>Total deferred tax (credit) charge</b>	<b>(1)</b>	<b>4</b>
<b>Taxation</b>	<b>36</b>	<b>30</b>

**ii) Deferred tax recognised directly in equity**

	2014 £m	2013 £m
Deferred tax charge (credit) on hedging activities	4	(6)

**iii) Reconciliation of effective tax rate**

The tax expense for the year is lower (2013: lower) than the expense that would have been charged using the blended rate of corporation tax in the UK (22.5%) applied to profit before tax. The applicable enacted or substantively enacted effective rate of UK corporation tax for the year was 22.5% (2013: 23.75%). The differences are explained below:

	2014 £m	2013 £m
Profit before tax	786	1118
Profit before tax multiplied by blended rate of corporation tax in the UK of 22.5% (2013: 23.75%)	177	266
Effects of		
Non-taxable income	(140)	(225)
Tax rate change	(1)	-
Over provision in respect of prior years	-	(11)
<b>Taxation</b>	<b>36</b>	<b>30</b>

All taxation relates to UK corporation tax

# Notes to the consolidated financial statements

## (continued)

### 31 British Sky Broadcasting Group plc company only financial statements (continued)

#### E Investments in subsidiaries

	£m
Cost	
At 1 July 2012	9 277
Additions	573
Disposal	(702)
At 30 June 2013	9 148
Additions	3
At 30 June 2014	9,151
Provision	
At 1 July 2012 30 June 2013 and 30 June 2014	1 005
Carrying amounts	
At 1 July 2012	8 272
At 30 June 2013	8 143
At 30 June 2014	8,146

During the prior year the Company purchased 100% of the share capital of BSkyB LLU Assets Limited from its direct subsidiary BSkyB Finance UK plc. The Company subsequently transferred its investment in BSkyB LLU Assets Limited to its direct subsidiary British Sky Broadcasting Limited.

See note 30 for a list of significant investments of the Company.

#### F Deferred tax

##### Recognised deferred tax liabilities

	Financial instruments temporary differences £m
At 1 July 2012	(3)
Charge to income	(4)
Credit to equity	6
At 30 June 2013	(1)
Credit to income	1
Charge to equity	(4)
At 30 June 2014	(4)

At 30 June 2014 a deferred tax asset of £244 million (2013: £278 million) has not been recognised in respect of capital losses related to the Group's holding in KirchPayTV on the basis that utilisation of these temporary differences is not probable. At 30 June 2014 the Company has also not recognised a deferred tax asset of £5 million (2013: £7 million) relating to capital losses and provisions in respect of football club investments on the basis that it is not probable that they will be utilised.

#### G Other receivables

	2014 £m	2013 £m
Amounts receivable from subsidiaries	3 008	2,966
Prepayments and other receivables	-	1
Current other receivables	3,008	2 967
Non-current prepayment	2	3
Total other receivables	3 010	2 970

On 26 November 2012, the Company issued US\$800 million Guaranteed Notes with a coupon rate of 3.125% and loaned proceeds to British Sky Broadcasting Limited. British Sky Broadcasting Limited pays the same annual effective interest rate to the Company.

On 5 March 2009 the Company made a loan of £694 million to British Sky Broadcasting Limited which is repayable on demand and bears interest at a rate of 6 month LIBOR plus 0.75%. In October 2009 the Company assigned £604 million of this loan to settle payables with BSkyB Finance Limited.

On 13 January 2009 the Company made a loan of £252 million to British Sky Broadcasting Limited. This loan bears interest at a rate of 6 month LIBOR plus 100% and is repayable on demand.

On 13 January 2009 the Company made a loan of £91 million to Sky In-Home Service Limited. This loan is repayable on demand and bears interest at a rate of 6 month LIBOR plus 100%.

On 24 November 2008 the Company issued US\$600 million Guaranteed Notes with a coupon rate of 9.5% and loaned the proceeds to BSKyB Finance Limited. BSKyB Finance Limited pays the same annual effective interest rate to the Company.

On 29 June 2008, the Company entered into loan agreements with British Sky Broadcasting Limited for £143 million and £109 million, both bearing interest at a rate of 1 month LIBOR plus 0.75%. These loans are repayable on demand.

On 29 June 2008 Sky Ventures Limited transferred its £11 million loan receivable from BSKyB Finance Limited to the Company. This loan bears interest at a rate of 1 month LIBOR plus 0.75% and is repayable on demand.

On 29 June 2008 the Company entered into a RCF with BSKyB Finance Limited worth £40 million. Amounts loaned under this facility bear interest at a rate of 1 month LIBOR plus 0.75% and are repayable on demand.

On 15 February 2008 the Company issued US\$750 million Guaranteed Notes with a coupon rate of 6.100% and loaned the proceeds to British Sky Broadcasting Limited. British Sky Broadcasting Limited pays the same annual effective interest rate to the Company.

All other amounts receivable from subsidiaries are non-interest bearing and are also repayable on demand.

The Directors consider that the carrying amount of other receivables approximates their fair values.

The Company's credit risk is primarily attributable to its other receivables. The majority of its other receivables balance is due from British Sky Broadcasting Limited. The risk of this entity defaulting on amounts owed is considered low due to its successful operation of pay television broadcasting and home communications services in the UK and Ireland.

#### H Borrowings

	2014 £m	2013 £m
Non-current borrowings		
US\$750 million of 6.100% Guaranteed Notes repayable in February 2018	442	498
US\$582.8 million of 9.500% Guaranteed Notes repayable in November 2018	353	404
US\$800 million of 3.125% Guaranteed Notes repayable in November 2022	466	520
£300 million of 6.000% Guaranteed Notes repayable in May 2027	296	296
	<b>1,557</b>	<b>1,718</b>

See note 20 for details of the Company's Guaranteed Notes and RCF and note 22 for details of Capital Risk Management.

#### I Other payables

	2014 £m	2013 £m
Other payables		
Amounts owed to subsidiary undertakings	3,536	3,398
Amounts owed to other related parties	23	6
Other	36	10
Accruals	18	20
	<b>3,613</b>	<b>3,434</b>

Amounts payable to subsidiaries are non-interest bearing and repayable on demand. The balance comprises £216.4 million of non-interest bearing loans (2013: £1,898 million) and £137.2 million of other payables (2013: £1,500 million). The Directors consider that the carrying amount of other payables approximates their fair values.

# Notes to the consolidated financial statements

## (continued)

### 31 British Sky Broadcasting Group plc company only financial statements (continued)

#### J Derivatives and other financial instruments

##### Fair values

Set out below is a comparison of the carrying values and the estimated fair values of the Company's financial assets and financial liabilities at 30 June 2014 and 30 June 2013

	2014 Carrying value £m	2014 Fair value £m	2013 Carrying value £m	2013 Fair value £m
Financial assets and liabilities held or issued to finance the Company's operations				
Quoted bond debt	(1 557)	(1 740)	(1 718)	(1 915)
Derivative financial instruments	19	19	165	165
Other payables and receivables	(605)	(605)	(467)	(467)

The fair values of financial assets and financial liabilities are determined as detailed in note 21 and all items held at fair value are classified as Level 2 in 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

	2014				2013			
	Asset		Liability		Asset		Liability	
	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m	Fair Value £m	Notional £m
Fair value hedges								
Interest rate swaps	51	452	-	-	65	505	-	-
Cash flow hedges								
Cross-currency swaps	45	290	(36)	503	86	746	-	47
Derivatives not in a formal hedge relationship								
Interest rate swaps	31	574	(26)	314	43	605	(42)	345
Cross-currency swaps	48	725	(94)	1 018	147	725	(134)	1 018
<b>Total</b>	<b>175</b>	<b>2 041</b>	<b>(156)</b>	<b>1 835</b>	<b>341</b>	<b>2 581</b>	<b>(176)</b>	<b>1 410</b>

Note 21 provides further details of the Group's derivative and other financial instruments

The maturity of the derivative financial instruments is shown below

	2014		2013	
	Asset £m	Liability £m	Asset £m	Liability £m
Between one and two years	33	(33)	-	-
Between two and five years	122	(67)	242	(112)
In more than five years	20	(56)	99	(64)
<b>Total</b>	<b>175</b>	<b>(156)</b>	<b>341</b>	<b>(176)</b>

#### K Financial risk management

##### Interest rate and foreign exchange risk management

The Company manages its exposure to interest rates and foreign exchange movements which arise from the Company's sources of finance by selectively entering into derivative financial instruments to manage its exposure. The Company has also entered into derivative contracts on behalf of its subsidiary BSKyB Finance UK 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 £16 million (2013: adverse impact of £22 million) relating to non-cash movements in the valuation of derivatives. The same strengthening would have an adverse impact on other equity of £21 million (2013: adverse impact of £25 million)

A 25% weakening in pounds sterling against the US dollar would have a beneficial impact on profit of £26 million (2013: beneficial impact of £36 million) relating to non-cash movements in the valuation of derivatives. The same weakening would have a beneficial impact on other equity of £36 million (2013: beneficial impact of £42 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 2014 and if all other variables were held constant the Company's profit for the year ended 30 June 2014 would decrease or increase by £3 million (2013 decrease or increase by £3 million) and other equity reserves would decrease or increase by £1 million (2013 decrease or increase by £4 million).

A one hundred basis point rise or fall in interest rates represents a large but realistic movement which can easily be multiplied to give sensitivities at different interest rates.

The sensitivity analyses provided are hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Company. In addition the Company's actual exposure to market rates changes as the Company's portfolio of debt changes.

The changes in valuations are estimates of the impact of changes in market variables and are not a prediction of future events or anticipated gains or losses.

**Liquidity risk**

See note 22 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 2014</b>				
Non-derivative financial liabilities				
Bonds - USD	74	74	962	521
Bonds - GBP	18	18	54	444
Other payables	3 613	-	-	-
Net settled derivatives				
Financial assets	(15)	(15)	(36)	-
Gross settled derivatives				
Outflow	63	62	930	560
Inflow	(56)	(56)	(920)	(521)
<b>At 30 June 2013</b>				
Non-derivative financial liabilities				
Bonds - USD	83	83	740	999
Bonds - GBP	18	18	54	462
Other payables	3 434	-	-	-
Net settled derivatives				
Financial assets	(17)	(17)	(51)	(6)
Gross settled derivatives				
Outflow	62	62	574	978
Inflow	(63)	(63)	(682)	(926)

At 30 June 2014 the Company had an undrawn £743 million RCF with a maturity date of 31 October 2018. See note 20 for further information.

# Notes to the consolidated financial statements

## (continued)

### 31 British Sky Broadcasting Group plc company only financial statements (continued)

#### L Notes to the Company statement of changes in equity

For details of share capital share premium the special reserve the capital redemption reserve and the hedging reserve see notes 23 and 24

For details of the Company's share buy-back programmes see note 24

For details of dividends see note 9

#### Capital reserve

This reserve arose from the surplus on the transfer of trade and assets to a subsidiary undertaking

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

	2014 £m	2013 £m
Profit before tax	786	1,118
Dividend income	(622)	(947)
Net finance costs	17	3
Increase in other receivables	(181)	(174)
Cash generated from operations	-	-

#### N Contingent liabilities and guarantees

The Company and certain of its subsidiaries have undertaken in the normal course of business to provide support to several of the Group's investments in both limited and unlimited companies and partnerships to meet their liabilities as they fall due. Several of these undertakings contain maximum financial limits. These undertakings have been given for at least one year from the date of the signing of the UK statutory accounts of the related entity. A payment under these undertakings would be required in the event of an investment being unable to pay its liabilities.

The Company has provided parent company guarantees in respect of the various contracts entered into with the Premier League by British Sky Broadcasting Limited covering the 2013/14 to 2015/16 football seasons. In each case the guarantee covers all payment obligations now or in the future due owing or incurred by British Sky Broadcasting Limited under the contracts and all liabilities now or in the future arising or incurred under the indemnity given to the Premier League by British Sky Broadcasting Limited under the contracts.

The Company has provided a parent company guarantee in respect of the contract entered into with British Sky Broadcasting Limited and Stanhope plc in relation to the construction of a new corporate headquarters at the Osterley Campus. The guarantee covers all performance obligations and payment obligations imposed on British Sky Broadcasting Limited under that contract.

The Company has guarantees in place relating to the Group's borrowings see note 20 and in relation to audit exemptions, see note 30.

#### O Transactions with related parties and major shareholders

	2014 £m	2013 £m
Supply of services to subsidiaries	225	214
Interest received from funding to subsidiaries	64	58
Amounts owed by subsidiaries	3,008	2,966
Amounts owed to subsidiaries	(3,536)	(3,398)
Amounts owed to other related parties	(23)	(6)

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 British Sky Broadcasting Limited settled liabilities of £83 million (2013: £74 million) on behalf of the Company during the year. Interest is earned on certain loans to subsidiaries.

The Company recognised £225 million (2013: £214 million) for licensing the Sky brand name to subsidiaries.

The Company recognised dividends during the year from subsidiaries totalling £622 million (2013: £947 million).

#### Share buy-back programme

During the year the Company purchased and subsequently cancelled 12,140,586 ordinary shares held by Twenty-First Century Fox Inc. as part of its share buy-back programme. For further details see note 24.

The Group's related party transactions are disclosed in note 28.

#### P Events after the reporting period

For details see note 29 to the consolidated financial statements.

# 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 2014

	Year ended 30 June 2014 £m	Year ended 30 June 2013 £m	Year ended 30 June 2012 £m	Year ended 30 June 2011 £m	Year ended 30 June 2010 £m
<b>Consolidated Income Statement</b>					
Continuing operations					
Retail subscription	6 255	5 951	5 593	5 471	4 778
Wholesale subscription	422	396	351	323	238
Advertising	472	440	440	458	340
Installation, hardware and service	85	87	98	112	174
Other	398	361	309	233	179
<b>Revenue<sup>(a)</sup></b>	<b>7 632</b>	<b>7 235</b>	<b>6 791</b>	<b>6 597</b>	<b>5 709</b>
Operating expense <sup>(a)</sup>	(6 471)	(5 944)	(5 548)	(5 524)	(4 865)
Litigation settlement income	-	-	-	-	269
<b>Operating profit</b>	<b>1 161</b>	<b>1 291</b>	<b>1 243</b>	<b>1 073</b>	<b>1 113</b>
Share of results of joint ventures and associates	35	46	39	34	32
Investment income on litigation settlement	-	-	-	-	49
Investment income	26	28	18	9	3
Finance costs	(140)	(108)	(111)	(111)	(122)
Profit on disposal of available-for-sale investment	-	-	-	9	115
<b>Profit before tax</b>	<b>1 082</b>	<b>1 257</b>	<b>1 189</b>	<b>1 014</b>	<b>1 190</b>
Taxation	(217)	(278)	(283)	(256)	(294)
<b>Profit for the year from continuing operations</b>	<b>865</b>	<b>979</b>	<b>906</b>	<b>758</b>	<b>896</b>
Discontinued operations					
Profit (loss) for the year from discontinued operations	-	-	-	52	(18)
<b>Profit for the year</b>	<b>865</b>	<b>979</b>	<b>906</b>	<b>810</b>	<b>878</b>
Net profit (loss) recognised directly in equity	73	129	64	(8)	61
<b>Total comprehensive income for the year</b>	<b>938</b>	<b>1 108</b>	<b>970</b>	<b>802</b>	<b>939</b>
Earnings per share from profit for the year (in pence)					
Basic	55.4p	60.7p	52.6p	46.5p	50.4p
Diluted	54.9p	59.7p	52.2p	45.9p	50.1p
<b>Dividends per share (in pence)</b>	<b>32.0p</b>	<b>30.0p</b>	<b>25.4p</b>	<b>23.3p</b>	<b>19.4p</b>
<b>Consolidated Balance Sheet</b>					
Non-current assets	3 876	3 776	3 234	3 025	2 818
Current assets	2 573	2 569	2 275	2 329	1 986
<b>Total assets</b>	<b>6 449</b>	<b>6 345</b>	<b>5 509</b>	<b>5 354</b>	<b>4 804</b>
Current liabilities	(2 519)	(2 317)	(2 098)	(1 912)	(1 707)
Non-current liabilities	(2 858)	(3 016)	(2 467)	(2 407)	(2 537)
<b>Net assets</b>	<b>1 072</b>	<b>1 012</b>	<b>944</b>	<b>1 035</b>	<b>560</b>
Number of shares in issue (in millions)	1 563	1 594	1 674	1 753	1 753

# Group financial record (continued)

## Unaudited supplemental information

### Consolidated results

Statistics	Year ended 30 June 2014 ( '000)	Year ended 30 June 2013 ( '000)	Year ended 30 June 2012 ( '000)	Year ended 30 June 2011 ( '000)	Year ended 30 June 2010 ( '000)
<b>Products</b>					
TV	10,686	10,422	10,288	10,187	9,860
Sky+HD	5,242	4,786	4,343	3,822	2,939
Multitroom	2,559	2,489	2,402	2,250	2,121
Sky Go Extra	1,177	166	-	-	-
Broadband	5,247	4,906	4,001	3,335	2,624
Telephony	4,982	4,501	3,768	3,101	2,367
Line rental	4,882	4,364	3,563	2,680	1,686
<b>Total paid-for subscription products</b>	<b>34,775</b>	<b>31,634</b>	<b>28,365</b>	<b>25,375</b>	<b>21,597</b>
<b>Customers</b>					
Retail customers	11,495	11,153	10,606	10,294	9,868
Wholesale customers <sup>(a)</sup>	4,041	3,677	3,672	3,522	3,271
<b>Total customers</b>	<b>15,536</b>	<b>14,830</b>	<b>14,278</b>	<b>13,816</b>	<b>13,139</b>
<b>Average number of full-time equivalent employees</b>	<b>20,841</b>	<b>19,413</b>	<b>17,937</b>	<b>16,006</b>	<b>16,439</b>

- (i) Included within wholesale subscription 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
- (ii) Included within operating expense for the year ended 30 June 2014 are costs of £72 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business: costs of £40 million relating to a corporate restructuring and efficiency programme and £2 million as a result of the termination of an escrow agreement with a current wholesale operator
- Included within operating expense for the year ended 30 June 2013 is a credit of £32 million in relation to a credit note received following an Ofcom determination, a credit of £33 million relating to the final settlement of disputes with a former manufacturer of set-top boxes (net of associated costs), costs of £31 million relating to one-off upgrade of set-top boxes: costs of £33 million relating to a corporate efficiency programme and costs of £15 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business. Also included are costs of £25 million relating to the programme to offer wireless connectors to selected Sky Movies customers
- Included within operating expense for the year ended 30 June 2012 is a credit of £31 million in relation to the News Corporation (subsequently renamed Twenty-First Century Fox Inc.) proposal in 2011 consisting of costs incurred offset by the receipt of the break fee. Also included are restructuring costs of £11 million which comprise severance payments in relation to approximately 35 senior roles as part of a restructuring initiative to improve operating efficiency
- Included within operating expense for the year ended 30 June 2011 is £26 million of restructuring costs arising on the acquisition of Living TV which comprise principally redundancy payments and the early termination of a pre-acquisition contract, £15 million of costs in relation to the News Corporation (subsequently renamed Twenty-First Century Fox Inc.) proposal and a credit of £41 million in relation to the refund of import duty on set-top boxes paid out in prior years. This duty was recovered due to the judgment given by the ECJ on 14 April 2011
- Included within operating expense for the year ended 30 June 2010 is £32 million of expense relating to a restructuring exercise of which £22 million related to the impairment of assets associated with Picnic (the potential launch of a subscription television service on DTT) and £10 million related to reorganisation costs and redundancy payments
- Also included within operating expense for the year ended 30 June 2010 is £1 million of expense relating to legal costs incurred on the Group's claim against EDS which provided services to the Group as part of the Group's investment in customer management systems software and infrastructure and a £5 million credit related to the cancellation of accounts payable on settlement of the claim against EDS
- (iii) 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

### Factors which materially affect the comparability of the selected financial data

#### Discontinued operations

During fiscal 2011 the Group sold its business-to-business telecommunications operation EasyNet to LDC

#### EDS Litigation settlement

During fiscal 2010 EDS and the Group fully and finally settled the litigation between them and all related claims (including for damages, costs and interest) for a total amount of £318 million

#### Available-for-sale investment

During fiscal 2011 the Group disposed of its equity investment in Shine and recognised a profit of £9 million

During fiscal 2010 the Group disposed of part of its equity investment in ITV and recognised a profit on disposal of £115 million. For further details see note 14 to the consolidated financial statements

#### Business combinations

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)

During fiscal 2011 the Group completed the acquisitions of Living TV and The Cloud. The results of these acquisitions were consolidated from the date on which control passed to the Group (12 July 2010 and 23 February 2011 respectively)

#### 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. For a discussion of the impact of exchange rate movements on the Group's financial condition and results of operations see note 22 to the consolidated financial statements

# Non-GAAP measures

## Unaudited supplemental information

### Consolidated Income Statement – reconciliation of statutory and adjusted numbers

	Notes	2014			2013		
		Statutory £m	Adjusting Items £m	Adjusted £m	Statutory £m	Adjusting Items £m	Adjusted £m
<b>Revenue</b>							
Retail subscription		6,255	-	6,255	5,951	-	5,951
Wholesale subscription	A	422	(15)	407	396	-	396
Advertising		472	-	472	440	-	440
Installation, hardware and service		85	-	85	87	-	87
Other		398	-	398	361	-	361
		7,632	(15)	7,617	7,235	-	7,235
<b>Operating expense</b>							
Programming	B	(2,662)	-	(2,662)	(2,487)	1	(2,486)
Direct networks	C	(850)	31	(819)	(686)	(29)	(715)
Marketing	D	(1,215)	16	(1,199)	(1,117)	1	(1,116)
Subscriber management and supply chain	E	(694)	6	(688)	(673)	26	(647)
Transmission, technology and fixed networks	F	(460)	13	(447)	(405)	4	(401)
Administration	G	(590)	48	(542)	(576)	36	(540)
		(6,471)	114	(6,357)	(5,944)	39	(5,905)
<b>EBITDA</b>		1,597	70	1,667	1,669	23	1,692
<b>Operating profit</b>		1,161	99	1,260	1,291	39	1,330
Share of results of joint ventures and associates	H	35	-	35	46	(9)	37
Investment income		26	-	26	28	-	28
Finance costs	I	(140)	5	(135)	(108)	(23)	(131)
Profit before tax		1,082	104	1,186	1,257	7	1,264
Taxation	J	(217)	(32)	(249)	(278)	(17)	(295)
<b>Profit for the year</b>		865	72	937	979	(10)	969
<b>Earnings per share (basic)</b>		55.4p	4.6p	60.0p	60.7p	(0.7)p	60.0p

#### Notes – explanation of adjusting items for the year ended 30 June 2014

- A Revenue of £15 million relating to credit received following termination of an escrow agreement with a current wholesale operator
- C Costs of £31 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business
- D Costs of £15 million in relation to a corporate restructuring and efficiency programme and costs of £1 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business
- E Costs of £3 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business and costs of £3 million in relation to a corporate restructuring and efficiency programme (principally an impairment of £2 million in relation to associated intangible and tangible assets)
- F Costs of £13 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business (including amortisation of £4 million in relation to associated intangible assets)
- G Costs of £24 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business (including amortisation of £23 million in relation to associated intangible assets), costs of £22 million relating to a corporate restructuring and efficiency programme and costs of £2 million relating to an expense as a result of the termination of an escrow agreement with a current wholesale operator
- I Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness
- J Tax adjusting items and the tax effect of above items

#### Notes – explanation of adjusting items for the year ended 30 June 2013

- B Costs of £1 million relating to a corporate efficiency programme
- C Credit of £32 million relating to a credit note received following an Ofcom determination and costs of £3 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business
- D Costs of £1 million relating to a corporate efficiency programme
- E Credit of £33 million relating to the final settlement of disputes with a former manufacturer of set-top boxes (net of associated costs and including an impairment of £6 million in relation to associated intangible assets), costs of £31 million relating to one-off upgrade of set-top boxes, costs of £25 million relating to a programme to offer wireless connectors to selected Sky Movies customers, costs of £2 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business and costs of £1 million relating to a corporate efficiency programme
- F Costs of £1 million relating to a corporate efficiency programme, significantly an impairment of associated intangible and tangible assets and £3 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business
- G Costs of £29 million relating to a corporate efficiency programme, primarily redundancy costs and including an impairment of £5 million in relation to associated intangible and tangible assets and £7 million relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business including amortisation of £4 million in relation to associated intangible assets
- H Profit on disposal of the Group's interest in MUTV Limited
- I Remeasurement of all derivative financial instruments not qualifying for hedge accounting and hedge ineffectiveness
- J Tax adjusting items and the tax effect of above items

# Non-GAAP measures (continued)

## Unaudited supplemental information

### Reconciliation of cash generated from operations to adjusted free cash flow

for the year ended 30 June 2014

	Note	2014 £m	2013 £m
<b>Cash generated from operations</b>	25	<b>1,769</b>	<b>1,877</b>
Interest received		27	29
Taxation paid		(240)	(300)
Dividends received from joint ventures and associates		32	43
Net funding to joint ventures and associates		(6)	(4)
Purchase of property plant and equipment		(241)	(203)
Purchase of intangible assets		(302)	(251)
Interest paid		(137)	(128)
<b>Free cash flow</b>		<b>902</b>	<b>1,063</b>
Receipt following termination of an escrow agreement with a current wholesale operator		(19)	-
Receipt following final settlement of disputes with a former manufacturer of set-top boxes <sup>(1)</sup>		(9)	(10)
Cash paid relating to a corporate efficiency programme <sup>(1)</sup>		12	4
Cash paid (receipt) following an Ofcom determination <sup>(1)</sup>		4	(28)
Cash paid relating to one-off upgrade of set-top boxes <sup>(1)</sup>		16	7
Cash paid relating to programme to offer wireless connectors to selected Sky Movies customers <sup>(1)</sup>		16	1
Cash paid relating to the acquisition and integration of the O2 consumer broadband and fixed-line telephony business <sup>(1)</sup>		22	4
Receipt on disposal of joint venture <sup>(1)</sup>		-	(13)
<b>Adjusted free cash flow</b>		<b>944</b>	<b>1,028</b>

(1) Net of applicable corporation tax

# Shareholder information

## Annual General Meeting

The venue and timing of the Company's 2014 AGM is detailed in the notice convening the AGM which will be available for download from the Company's corporate website at [sky.com/corporate](http://sky.com/corporate)

## Financial calendar

Results for the financial year ending 30 June 2015 will be published in

October 2014\*  
February 2015\*  
May 2015\*  
August 2015\*

\* Provisional dates

## The Sky website

Shareholders are encouraged to visit the Sky website [sky.com](http://sky.com) which has a wealth of information about the Company. There is a section designed specifically for investors at [sky.com/corporate](http://sky.com/corporate) where investor and media information can be accessed. This year's Annual Report and Notice of AGM together with prior year documents can be viewed there along with information on dividends, share price and avoiding shareholder fraud.

## Managing your shares and shareholder communications

The Company's shareholder register is maintained by its Registrar Equiniti. Information on how to manage your shareholdings can be found at [help.shareview.co.uk](http://help.shareview.co.uk)

Shareholders can contact Equiniti in relation to all administrative enquiries relating to their shares, such as a change of personal details, the loss of a share certificate, out-of-date dividend cheques, change of dividend payment methods and how to apply for the Dividend Reinvestment Plan.

Shareholders who have not yet elected to receive shareholder documentation in electronic form can sign up by registering at [shareview.co.uk](http://shareview.co.uk). Should Shareholders who have elected for electronic communications require a paper copy of any of the Company's shareholder documentation, or wish to change their instructions, they should contact Equiniti.

## Shareholder Contact Centre

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA  
Telephone 0871 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.  
Calls to 0871 numbers cost 8p per minute plus network extras.

## Dividend tax vouchers

A consolidated tax voucher service is available for shareholders who have chosen to receive dividends directly into their bank account. A single consolidated tax voucher will be mailed by the end of November each year to coincide with the final dividend payment.

## 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.

## 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.

## American Depositary Receipts ("ADRs")

The Company's ADR programme trades on the over-the-counter ("OTC") market in the US. More information can be obtained from the Company's corporate website at [sky.com/corporate](http://sky.com/corporate)

All enquiries relating to the Company's ADRs should be addressed to

BNY Mellon  
PO Box 43006 Providence RI 02940-3006 U.S.A.  
US residents: (888) 269 2377  
If resident outside the US: +1 201 680 6825  
email: [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com)

## Company's registered office

Grant Way  
Isleworth  
Middlesex  
TW7 5QD  
Telephone 0333 100 0333  
Overseas +44 333 100 0333

## Company registration number

2247735

## Auditor

Deloitte LLP  
2 New Street Square  
London  
EC4A 3BZ

# Glossary of terms

Useful Definitions	Description
Churn	The number of total customers over a given period that terminate their subscription in its entirety net of former customers who reinstated their subscription in that period (where such reinstatement is within a 12-month period of the termination of their original subscription) expressed as an annualised percentage of total average customers for the period
DTH	Direct-to-Home the transmission of satellite services and functionality with reception through a satellite dish "DTH customer" means a subscriber to one or more of our retailed packages of television channels made available via DTH
DTT	Digital Terrestrial Television digital signals delivered to homes through a conventional aerial converted through a set-top box or integrated digital television set
EPG	Electronic Programme Guide
IP	Internet Protocol a mechanism by which data packets may be routed between computers on a network
IPTV	Internet Protocol Television
Multiscreen	Installation of an additional set-top box in the household of an existing DTH customer Sky Go Extra is included at no extra cost for Multiscreen customers on an opt-in basis
NOW TV	The Group's over the top streaming service available on a variety of devices including NOW TV Box, offering monthly subscriptions for Sky Movies or Entertainment and transactional Sky Sports Day Passes
On Demand	Sky's On Demand service offering a selection of content from across the Sky platform available for customers to watch whenever they want The full On Demand service is available to customers that have an active broadband connection
PVR	Personal Video Recorder satellite decoder which utilises a built-in hard disk drive to enable viewers to record without videotapes pause live television and record one programme while watching another
Set-top box	Digital satellite equipment responsible for receiving converting and sending the picture and sound of a broadcast to the associated television set
Sky+	Sky's fully-integrated PVR and satellite decoder
Sky+HD	High Definition set-top box with PVR functionality
Sky Bet	Sky's betting services provided through set-top boxes, the internet and via phone
Sky Broadband	Home broadband service
Sky Go	Sky's retailed packages of television channels and on demand content made available via a broadband connection including the version made available to mobile devices via a wireless or 3G connection
Sky Go Extra	Selected content included within Sky's retailed packages of television channels and on demand content made available to download enabling customers to watch the content when and wherever they want without the need for a broadband, wireless or 3G/4G connection
Sky Store	Our pay-per-view on demand movies rental service available via Sky On Demand and Sky Go
Sky Talk	Home telephony service
Sky WiFi	Sky's seamless wireless internet access provided at over 20 000 The Cloud hotspots in the UK
Standalone home communications	Sky's retailed packages of broadband talk and line rental when taken without a television subscription package





## Accessibility

If you would like advice regarding accessibility of this document, please contact the Accessible Customer Service team on 03442 410333 or Textphone on 0844 241 0535

Customers in ROI should use telephone number 0818 71 98 09 and Textphone number 0818 71 98 49

We can also be contacted by email [accessiblecustomerservice@bskyb.com](mailto:accessiblecustomerservice@bskyb.com)

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